

TAXATION AND PUBLIC EXPENDITURES

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Expenditures and Revenues of the Federal Government

By EDWARD B. ROSA, PH.D.

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Introduction

CRITICISM of the Federal Government is the vogue nowadays. With taxes and surtaxes that are direct and heavy enough to be seriously felt, the industries slowed up and wages and prices in readjustment, nearly everyone finds some reason for criticism. The executive departments are charged with being inefficient, extravagant and overdeveloped, and are popularly supposed to be wasting large sums of the people's money. It has even been suggested that the high cost of living is due to the high cost of government, and that if reasonable economies were introduced in the executive departments the cost of living would be appreciably reduced. If it were stated that high prices and the high cost of living were due to the direct and indirect consequences of the war, the truth of the statement would not be questioned. But when it is asserted that they are caused by the high cost of government, it appears desirable to inquire: —What is the cost of government? What are the functions of government? And what becomes of the four or five or six billions of dollars annually collected in taxation?

Since the war the expenses of the government have increased enormously, and it seems to have been assumed by some that the civil bureaus and departments have increased their activities and expenses in the same proportion as the total has increased. Much has been said and written about the great expansion of the bureaus, and the need for curbing their growth and cutting their estimates is often em-

phasized. Some writers, while saying little of their usefulness or the increased need of their services, say much of their inefficiency, extravagance and overdevelopment, and of the duplication of work by different bureaus or departments. These statements are usually made in general terms and without proof or particulars, but they appear to be made in good faith and apparently with the belief that bureau officers are more anxious to expand their functions and spend money than to increase the efficiency and usefulness of their respective bureaus. This opinion is so seriously at variance with what one should expect that it appears worth while to examine the facts in the case.

A prominent western paper recently said:

The people are willing to pay the cost of the war. They are willing to pay adequate salaries and wages for all the public officials and employes actually needed for government work. But everyone knows that government expenditures in the nation, the state and the municipality are enormously swollen by unnecessary departments, commissions, bureaus, boards, officials and employes, to swell the list of soft places for party workers. The biggest issue today in this country is the tax issue. The government may take warning now; the people will not stand for increasing burdens of taxation for party loot and public waste.

Such ideas have been expressed over and over again, in editorials, on the platform and in resolutions of public bodies. But some writers go further and assert that not only is there a large surplus of federal employes in the de-

partments, but that taken as a class they are inefficient and unprofitable. Such a serious indictment of the government deserves to be examined, and if found to be true the responsibility should be placed and the remedy applied.

Congress has already acted in the matter of appropriations and has made radical reductions in many directions. It has also under consideration an executive budget, a rearrangement of some of the bureaus, a classification and standardization of the personnel of the government, and other constructive measures looking to increased efficiency in the public service. Nobody will welcome efforts to increase the efficiency of the government service more cordially than the permanent civil service staff of the government,—or what should be the permanent staff, but in these later days is anything but permanent. Such efforts are timely and will perhaps be facilitated by further discussion of the functions and cost of government; for there is a good deal of misunderstanding and misconception in the public mind regarding the work of the Federal Government, its scope and value and cost.

The Functions of Government

Henry C. Adams, in his treatise on the *Science of Finance*, classifies governmental functions into three groups: (a) The protective functions of government, (b) the commercial functions of government, and (c) the developmental functions of government.

(a) The protective functions of government are divided into three principal classes: (1) Protection against invasion or encroachment from without is provided by the Army and Navy, and this has always been an important and relatively expensive department of a national government. (2) Protection of life, property and reputation,

which is accomplished through police, fire departments, and the courts. (3) Protection against the spread of disease, either physical or social. As crime is looked upon as a phase of social disease, this will include prisons, asylums, sanitary provision, public charities, etc.

(b) The commercial functions of government include those which render a service for which payment is made by the individuals served, and are in general self-supporting. They address themselves primarily to the personal needs of the citizen rather than to the social needs of the state, and are performed by the state because it can render the service better or cheaper than private agencies. These services are generally such as can be rendered better by a single agency having a monopoly, rather than by many competing agencies. Hence it is usually a choice between the government performing the service or supervising the private agency which does so. Examples are the post office, railways, canals, telegraphs and other public utilities, patents and insurance.

(c) The developmental functions of government "are such as spring from a desire on the part of society to attain higher forms of social life." Society is not merely a collection of individuals, but is a conscious organism, and the interests of society require collective action in its development. This includes: (1) Public education, (2) public recreation, (3) providing those legal and administrative conditions in which private business will be conducted in a just and equitable manner, (4) investigation and control of public utilities, (5) developing the resources and wealth of the state, which includes scientific and industrial research and the coöperation of the government with scientific and engineering societies and the

industries in engineering and industrial standardization.

DEVELOPMENTAL FUNCTIONS OF THE FEDERAL GOVERNMENT

These three classes of functions are exercised to some extent by municipal and state governments as well as the Federal Government. The powers of the Federal Government were delegated to it by the states, and were intended to be those required for the exercise of sovereignty by the nation in its relation with other nations, the maintenance of a national army and navy, the provision of a national currency, a common postal system, a uniform system of weights and measures (although this was not carried out as intended), the regulation of interstate commerce, etc.

In the early years of our history, society was relatively simple, communication and travel were infrequent, and each community was comparatively independent. Hence local governments were, in many respects, more important than national. With the developments in transportation and communication which have resulted from steam and electricity, the forty-eight states have come very close together, commerce and industry have much in common everywhere, uniformity of practice and uniformly good practice are generally desired, and it has been a problem how to avoid confusion of administration and industrial practice when there were so many legislative and administrative bodies in the various states acting independently of each other. This has been partly accomplished by the coöperation of federal agencies with state bodies, leaving the legal authority with the states. But very much remains to be accomplished in this regard, and in many cases where coöperation is greatly needed, the Federal Government is doing little or nothing.

Many protective and developmental functions have long been exercised by the Federal Government because they were of common interest to all the people, they could be performed more effectively and more economically by the Federal Government than by the several states, and there was difficulty in getting all the states to work in harmony on a common program. The people who support the Federal Government are the same people who support the forty-eight state governments, and hence the plan of acting together through the Federal Government in performing functions of interest to all is not only economical and efficient but logical and just. In practice it has worked out exceedingly well in many cases where a single agent can perform the service more efficiently than many agencies. On the other hand there are some cases, such as vocational and agricultural education and the construction of improved highways, where the Federal Government is promoting activity and coöperation among the states by aiding in the financial support of work carried on by the states.

SCIENTIFIC RESEARCH A LUXURY OR A NECESSITY?

For many years the revenues of the Federal Government were ample and easily obtained. Taxation was indirect and not felt and many of the developmental functions of the government were exercised with little question or objection. The Great War involved enormous expenditures and increased the fixed charges due to the public debt and other war obligations to several times the former budget. The result is that expenditures for education, scientific research and development work are severely scrutinized, and the question is raised as to whether we can afford to carry on such work on a generous scale. It is, of course, proper

that every item in the national budget be closely scrutinized, and that nothing be passed which can not justify itself. It is desirable, therefore, to inquire whether scientific and industrial research as carried on by the Federal Government is a luxury or a necessity; whether it is something to be enjoyed when taxes are light and curtailed when taxes are heavy; or whether it is creative and wealth-producing, and therefore to be increased and developed when expenses are abnormally large and a heavy debt must be liquidated. The question is, in short, whether scientific and industrial research and education and other developmental work of the government are like good seed and fertilizer to a farmer, which are essential to the best success; or whether they are as luxuries to the rich which should be curtailed when necessary expenses increase. Before discussing this question further, however, we may consider the organization of the Federal Government and the classification of its activities. As a basis of such classification, we may take the government's budget of expenditures and revenues, analyzing and classifying them according to the functions of the various branches of the service.

Distinction Between Gross Expenditures and Net Expenses of Government Departments

Some months ago the writer made a study of the appropriations for all branches of the government service for the fiscal year 1920. These appropriations were analyzed and classified into six groups.¹ The result showed that for the fiscal year 1920, three per cent of the total budget was appropriated for general governmental purposes

(legislative, executive, and judicial), three per cent for public works, one per cent for research, education, and development, and 93 per cent for the army and navy, railroad deficit, shipping board, pensions, war-risk insurance and interest on the public debt, all of which are either obligations arising from the war or preparation for possible future wars.

In order to get a more accurate knowledge of government expenditures, and to ascertain how they have increased in recent years, the receipts and expenditures of all departments for the past ten years have since been analyzed, using the official published records of the Treasury Department for the purpose, but following a somewhat different and more detailed classification. Appropriation bills do not show the earnings or credits to bureaus and departments and hence in many cases are misleading as to the real cost of a given branch of the service. In some cases the whole cost, and in other cases a large part of the cost, is covered by fees or earnings. Examples of such cases are the Consular Service, the Patent Office, the Land Office, the Reclamation Service, the Bureau of Navigation, the Forest Service, National Bank examinations, the Federal Reserve Board and notably the Post Office. A "billion dollar Congress" was a familiar phrase in prewar days, and this was generally supposed to mean that the National Government cost the taxpayers a billion dollars a year. This, however, was not the case. It meant merely that the total appropriations by Congress, that is, the authorized gross annual disbursements of the government, including the entire business of the Post Office Department, amounted to a billion dollars per annum. In no single year prior to our entry into the Great War were the net expenses of the government payable

¹ The Economic Importance of the Scientific Work of the Government, *Journal of the Washington Academy of Sciences*, vol. 10, pp. 341-382. 1920.

from taxation as much as seven hundred millions of dollars. The important distinction between gross disbursements and net expenses should be emphasized, for it is often overlooked. This study has yielded results of very great interest and value, and throws much light on the question of the cost of government, and whether the civil activities of the Federal Government are overdeveloped, and to what extent they are a burden upon the taxpayer.

In what follows, comparatively little will be said of the military side of the government, except to give its expenditures. Its importance and necessity are taken for granted, and no criticism is intended in pointing out the large amount required for such purposes. The writer is strongly in favor of an adequate and efficient army and navy, but he expresses no opinion as to what is adequate or how much should be spent for the purpose.²

DISBURSEMENTS, RECEIPTS AND NET EXPENSES FOR TEN YEARS

In order to obtain a correct idea of the actual expenses of the various departments and bureaus of the government, it is necessary to take account of their earnings and of credits for the sale

² The Bureau of Standards during the war did a large amount of research and testing for the army and navy, using for the purpose its own funds so far as they were available, and a great deal more transferred by the military departments. Since the war some of these military researches have been continued and others undertaken with funds provided by the army and navy. It is a pleasure to testify to the cordial relations that have existed between this bureau and these departments, and the generous appreciation by the latter of the work done for them by the Bureau of Standards. Nothing in this article should be understood as a criticism of either department or as depreciating the importance of military preparedness. The aim is to set forth the facts as to expenditures and to emphasize and urge the importance of research and education in the interest of civil and military efficiency.

of government property, of trust funds received and disbursed, and of unexpended appropriations turned back into the Treasury. The Treasury Department publishes each year a *Combined Statement of Receipts, Disbursements, Balances, etc.*, of all departments for which appropriations are made, as well as of revenues collected, and these official publications have been used in this study. The ten fiscal years, 1910-1919, inclusive, were first taken before the report for 1920 was available. A study of 1920 has since been added.

In some cases appropriations greatly exceed actual net expenses, and, on the other hand, certain continuing and indefinite appropriations do not appear explicitly in current appropriations. Fees and fines, proceeds from the sale of government property and other collections are turned into the Treasury and recorded under miscellaneous receipts, and can not be expended by the department or bureau collecting them. During the fiscal years 1910 to 1917, inclusive, the amounts of these miscellaneous receipts ranged from forty-five to eighty million dollars each year. In the two war years, 1918 and 1919 taken together, they amounted to over nine hundred million dollars, including several hundred millions for interest on loans to European governments.

Expenditures and receipts are distributed among the 106 items of the eight groups of government agencies,³ and net revenues and net expenses determined for each item and each group, and the whole added and balanced and checked against the figures given in the summaries published by the Treasury Department. For each year a summary statement was also made for group IX, showing the revenues collected through the customs, internal-revenue taxes, and taxation

³ See page 10-11.

of national-bank circulation. These are the only revenues resulting from taxation; fees and fines and the proceeds of sales of government property being credited to departments, as stated above, as an offset to expenses. For example, the fees collected by the State Department or the Patent Office or the Land Office, or the Bureau of Navigation, or a federal court are not intended as taxes for governmental revenue, but rather as fees to cover in part or in whole the expense incurred in rendering a special service or adjudicating a specific case, or as an administrative measure, and are properly credited against the expenses of the given agency.

Most, if not all, of these agencies perform public functions and thus render a service to the public as a whole apart from the service to individuals for which a fee is collected. It is thus proper that the public as a whole should pay for the general service to the public, if the individuals served pay for the individual service which they receive. But it is obviously unfair and misleading to charge against a department or bureau the entire expense, and not credit to that department or bureau fees and other earnings or receipts from government property sold, all of which have caused the expenses of the given department to be greater than otherwise.

An extreme case of the kind is the Post Office. The Postal Service account is kept separate from the General Fund of the Treasury, and includes all the receipts of post-office business and all expenses other than salaries for the central administration of the Post Office Department, and certain items of a general character. In addition to these overhead items paid from the Treasury, which amount on the average to less than one per cent of the postal revenues, the net deficiency or net sur-

plus is transferred over to the General Fund of the Treasury in a single item each year. During the ten fiscal years 1910-1919 the total of the surplus amounted to \$26,033,448, and the total of deficiencies amounted to \$30,890,-619, leaving a net deficit of only \$4,857,171 for the entire ten-year period, with a total business of nearly three billions of dollars. The deficit was thus less than two-tenths of one per cent of the total business. The total of the surpluses transferred to the general fund of the Treasury from the postal service account exceeded the deficits by \$14,399,161, whereas the overhead and miscellaneous expenses of the Post Office Department paid directly from the Treasury amounted to \$19,256,332. The difference between these sums is the net deficit given above, which is an average of less than half a million dollars per year. This is in addition to \$110,000,000 special war revenue collected while three-cent letter postage was in effect. The excess revenue resulting from the extra cent charged, which was regarded as a war tax, was all transferred to the General Fund.

The expenditures on the Panama Canal while under construction were included in the Public Works group, but after its opening the cost of routine operation and maintenance together with tolls collected were placed in group I, while the cost of additions and betterments was included in group III. The cost of the fortifications of the Panama Canal, however, has been charged in this study to the War Department as a military expenditure. On the other hand, the large sums spent for river and harbor improvements, which are expended by the army and charged to the War Department in the Treasury account, have been charged in this study to Public Works, on the ground that these im-

provements are for civil rather than military purposes.

The Reclamation Service has annual appropriations of about nine million dollars, but it is provided that it can not expend any more money than is received annually through the sale of public lands and by collections from settlers for lands they occupy or for water received by them for irrigation purposes. Thus the nine-million-dollar appropriation to the Reclamation Service is only an authorization to use the money which they annually collect, or which has been turned into the Treasury by the Land Office, and hence the Reclamation Service costs the taxpayers very little. Some years ago \$20,000,000 was, indeed, advanced to the Reclamation Service as a loan, in addition to the receipts from land sales and collections from irrigation projects. This has all been expended and this year a first installment of one million dollars will be paid into the Treasury toward the liquidation of the loan.

The appropriations for the District of Columbia for the current fiscal year amount to over sixteen millions of dollars, but some parts of this sum are borne entirely from the revenues of the District, and 60 per cent of the remainder is also paid by the District. Not much over one-third of the total is borne by the federal treasury.

The Treasury Department maintains a large force of national-bank examiners, and expended in 1919 more than a million dollars for their salaries and expenses, but it collects and reimburses the Treasury for every dollar of it through assessments upon the banks.

It also collects nearly a half a million dollars a year from national banking associations on account of salaries and contingent expenses of the Treasurer of the United States and the Comptroller of the Currency. The expenditures in 1919 for Indian affairs amounted to \$33,320,447, but more than two-thirds of this sum was the Indians' own money, which the government handled as trustee for the Indians. Only \$10,218,327 was borne out of taxation as an actual expense to the government.

These examples are given to illustrate the important distinction between gross disbursements and net expenses of the various departments of the government, and to show how misleading it is to look at only one side of the account as one does in looking only at the appropriations.

A Functional Classification of the Activities of the Federal Government

In order to get a proper perspective of the various activities of the Federal Government, protective, commercial and developmental, the departments, bureaus, commissions and other governmental agencies have been classified, according to their functions, into eight groups. A ninth group includes the sources of revenue from direct or indirect taxation. In the following brief description of these eight groups the total net expenses of each group for the fiscal year 1920 is given. A detailed list of the constituents of each group is given on pp. 10-11, and the expenditures are discussed below:

GROUP I—Primary governmental functions, legislative, executive and judicial,
including Congress, the President and White House staff, departments of State, Justice, Post Office, and most of the Treasury, a part of Interior, Agriculture, Commerce, and Labor, the Interstate Commerce, Federal Trade, Civil Service and other Commissions, the Federal Courts and penal establishments, and the District of Colum-

bia; covering all the necessary functions of government other than defense, except the research, education and development work of group II, and the construction of public works of group III.....	\$224,110,594
GROUP II—Research, education, and developmental work , including the wide range of research work of the sixteen bureaus of the Agricultural Department; the Geological Survey, Bureau of Mines and Bureau of Education; Coast and Geodetic Survey, Bureaus of Standards, Census and Fisheries; Women's and Children's Bureaus and Labor Statistics; Vocational Education, Colleges of Agriculture and Mechanic Arts; Library of Congress, Smithsonian Institution, Public Health Service and National Parks; covering most of the scientific, educational, cultural and wealth producing activities of the government.....	57,368,774
GROUP III—Public Works , including river and harbor improvements, the construction of new public buildings, the Reclamation Service, construction of a railroad in Alaska, Rural Post Roads, and before the war the Panama Canal; covering projects of construction as distinguished from operation	85,071,042
GROUP IV—Army and Navy , maintenance and development, including armament and fortifications and new construction for the Navy.....	1,348,892,747
GROUP V—Pensions and Care of Soldiers , including pensions, the net expenses of the war risk insurance, rehabilitation of soldiers and care of soldiers by the Public Health Service	329,261,746
GROUP VI—Obligations Arising from the war , including the deficit of the Railroad Administration, the Shipping Board, European food relief, special expenses of war loans, federal control of telegraph and telephone service, National Security and Defense, Food and Fuel Administrations, War Labor Administration, and other war boards and commissions	1,634,695,095
GROUP VII—Interest , including interest paid on the funded and floating debt and interest bearing trust funds, less interest received and discount on bonds repurchased.....	929,131,128
GROUP VIII—Public Debt, Loans and Trust Funds , including public debt transactions, loans to European governments, loans to farmers, banks and purchase of stock, seigniorage and trust funds, total for 1920	\$1,697,983,576
Less amount paid from general fund.....	= 681,801,853
Balance = Surplus of revenue over current expenses.....	1,079,181,723
	\$5,687,712,848
GROUP IX—Revenues	
Customs, less refunds.....	\$296,274,230
Internal revenue, less refunds.....	5,379,353,020
Tax on National Bank Circulation.....	= 7,172,598
Postal War Revenue.....	4,913,000
Total net revenue from taxation in 1920.....	\$5,687,712,848

The first three groups include all the normal civil activities of the government; the next three, the current costs of the Army and Navy, the care of soldiers and the obligations arising from the war, are military; the last two may also be classed with the military as they represent the expenses arising from that part of the cost of

search, education and development; and 80 cents was spent for public works, a total of \$3.45. The remainder, \$50.01 went for military expenditures and paying for past wars. These civil expenses certainly do not seem unreasonable. Indeed, they are surprisingly small when we consider the wide range of Federal Governmental activities and

Group		Per Cent	Per Capita
"	I—Primary Governmental Functions	3.9	\$2.11
"	II—Research, Education and Development	1.0	0.54
"	III—Public Works	1.5	0.80
"	IV—Army and Navy	23.8	12.68
"	V—Pensions and Care of Soldiers	5.8	3.09
"	VI—Obligations arising from the War	28.7	15.36
"	VII—Interest	16.3	8.73
"	VIII— Surplus for Reduction of Public Debt	19.0	10.15
<hr/>			
Total		100.0%	\$53.46

past wars which is not yet liquidated. Dividing the amount expended for each group by the total for the year, we have the percentages given in the above table. Dividing the totals by the population of the country on June 30, 1920, 106,380,000, we have the per capita costs of each group.

Thus the expenses of three civil groups together amount to 6.4 per cent of the total, and the military groups, including interest and reduction of the public debt (paying for the war) amount to 93.6 per cent of the total. Before the war, as we shall see later when we come to examine the prewar expenditures of the government, the civil expenses constituted a much larger part of the total, while of course during the war they were much less.

The second column in the above table gives the per capita costs of government in 1920. Of the total of \$53.46 per capita revenue collected through taxation in 1920, \$2.11 was spent for the primary functions of government, legislative, executive, and judicial; 54 cents was spent for re-

the high costs of conducting business of all kinds in 1920. The net cost payable from taxation of municipal government in New York, Chicago and Philadelphia in 1918 was \$30.22 per capita. In 1920 it was considerably more, probably *not less than 10 times the per capita cost of the civil side of the Federal Government, as defined above.*

One is led to wonder how it is possible to operate a great national government adequately on a per capita cost of \$2.11 for the primary governmental functions; and whether if instead of 54 cents per capita for research, education and development, twice as much had been spent, it would not have made the burden of taxation lighter instead of heavier, by rendering a greater service to the people and creating wealth and aiding industry in larger measure.

Before attempting to answer these questions or going further with the study of the costs of government, we must make a more detailed classification of the government's activities and

may then take a rapid but somewhat more detailed survey of the activities of the government in the various groups in order to better appreciate what was accomplished in 1920 by \$3.45 per capita in the three civil groups, and by \$50.01 in the remaining groups of the government.

In the following classification the grouping is by functions, but the order in the groups is largely determined by the order in appropriation bills and the Treasury publications.

Group I Primary Governmental Functions, Legislative, Executive and Judicial

Legislative:

- 1 Senate
- 2 House of Representatives
- 3 Legislative, Miscellaneous
- 4 Capitol Buildings and Grounds
- 5 Government Printing Office.

Executive:

- 6 President, Vice-President, and White House Staff
- 7 Civil Service Commission
- 8 Bureau of Efficiency
- 9 Tariff and Other Commissions.

State Department:

- 10 State Department Proper
- 11 Diplomatic and Consular Service.

Treasury:

- 12 Administrative, Bookkeeping and Warrants, Clerical and Miscellaneous
- 13 Auditors, Comptroller, Treasurer, and Registrar of the Treasury
- 14 Customs
- 15 Internal Revenue
- 16 Coast Guard
- 17 Bureau of Printing and Engraving
- 18 Independent Treasury, Mint and Assay Offices
- 19 Fiscal: Comptroller of Currency, Public Moneys, Loans and Currency, Farm Loans, etc.

Interior Department:

- 20 Office of Secretary and Miscellaneous
- 21 Land Office and Land Service
- 22 Patent Office

- 23 Hospitals and Relief.
- 24 Territorial Governments
- 25 Indian Office and Indian Service.

Post Office Department:

- 26 Post Office Department Proper
- 27 Postal Service Miscellaneous
- 28 Postal Service Deficiency or Surplus.

Department of Agriculture:

- 29 Statutory Salaries and Miscellaneous Expenses
- 30 Meat Inspection Service
- 31 Acquisition of Land to Protect Water Sheds
- 32 Enforcement of Grain Standards, the Pure Food Law, and Animal and Plant Quarantine, etc.

Department of Commerce:

- 33 Office of Secretary and Miscellaneous
- 34 Bureau of Navigation
- 35 Steamboat Inspection Service
- 36 Bureau of Lighthouses
- 37 Bureau of Foreign and Domestic Commerce.

Department of Labor:

- 38 Office of Secretary and Miscellaneous
- 39 Immigration and Naturalization.

Department of Justice:

- 40 Salaries, Expenses, and Sundries.

Judicial:

- 41 Federal Courts and Penal Establishments.

Independent Commissions, Etc.:

- 42 Interstate Commerce Commission
- 43 Federal Trade Commission
- 44 Employes' Compensation Commission
- 45 Miscellaneous Commissions
- 46 District of Columbia
- 47 Panama Canal—Maintenance and Operation
- 48 Public Buildings and Grounds—Maintenance and Operation
- 49 Extraordinary Expenses.

GROUP II RESEARCH, EDUCATION AND DEVELOPMENTAL WORK

Department of Agriculture:

- 50 Forest Service
- 51 Bureau of Animal Industry

52 Bureau of Plant Industry
 53 State Relations Service (Agric. Expt. Stations before 1915)
 54 Coöperative Agricultural Extension Work
 55 Office of Markets and Rural Organization
 56 Weather Bureau
 57 Bureau of Entomology
 58 Bureau of Chemistry
 59 Bureau of Biological Survey
 60 Bureau of Public Roads and Rural Engineering
 61 Bureau of Soils
 62 Bureau of Crop Estimates
 63 Bureau of Farm Management and Farm Economics
 64 Horticultural and Insecticide Boards
 65 Miscellaneous.

Department of Interior:

66 Geological Survey
 67 Bureau of Mines
 68 Bureau of Education and Howard University.

Department of Commerce:

69 Coast and Geodetic Survey
 70 Bureau of Standards
 71 Bureau of Fisheries
 72 Bureau of the Census.

Miscellaneous:

73 Public Health Service (Treasury Department)
 74 Bureau of Labor Statistics (Dept. of Labor)
 75 Children's and Women's Bureau (Dept. of Labor)
 76 Library of Congress
 77 Smithsonian Institution and National Museum
 78 Colleges for Agriculture and Mechanic Arts (Land Grant)
 79 Federal Board for Vocational Education
 80 National and District of Columbia Parks; Botanical Gardens.

GROUP III PUBLIC WORKS

81 Rivers and Harbors
 82 Panama Canal Construction
 83 Public Buildings, New Construction (Supervising Architect's Office)
 84 Rural Post Roads and Forest Roads

85 Alaska Railway
 86 Reclamation Service.

GROUP IV ARMY AND NAVY

87 War Department (Except Rivers and Harbors, etc.)
 88 Navy Department
 89 Armament and Fortifications, Panama Canal
 90 Maintenance and Care, State, War and Navy Buildings.

GROUP V PENSIONS AND CARE OF SOLDIERS, ETC.

91 Pension Office and Pensions
 92 War Risk Insurance
 93 Rehabilitation of Soldiers, Federal Board for Vocational Education
 94 Care of Soldiers—Public Health Service.

GROUP VI OBLIGATIONS ARISING FROM THE RECENT WAR

95 Railroad Administration
 96 Shipping Board
 97 Food and Fuel Administration
 98 Miscellaneous Boards and Commissions
 99 Special War Activities.

GROUP VII INTEREST

100 Interest on the Public Debt
 101 Interest on Loans and Trust Funds.

GROUP VIII PUBLIC DEBT, LOANS AND TRUST FUNDS

102 Public Debt Transactions
 103 Loans to European Governments
 104 Loans to Farmers, Banks, or Purchase of Stock
 105 Seigniorage
 106 Trust Funds.

GROUP IX REVENUES

107 Customs
 108 Internal Revenue
 109 Tax on National Bank Circulation
 110 Post Office War Revenue
 (Sales of Government Lands are credited to the Reclamation Service.)

It is of course impossible to make a perfectly logical group classification

of government activities without splitting up some bureaus into parts, as many perform both governmental and educational or developmental functions. In such cases the bureau is classed according to its major activities.

The first five items of group I are clearly governmental, but the Library of Congress, our national library (which also is included under legislative in the appropriations) is assigned to group II because its functions are primarily educational rather than governmental, although the copyright division taken by itself would have been classed with group I. Items 7, 8 and 9 are the civil commissions reporting directly to the President, given in appropriation bills under executive, although items 42 and 45 (under the heading independent commissions) also report directly to the President. Items 10 and 11, covering the State Department, are obviously governmental and belong in group I. Items 12 to 19 include all the functions of the Treasury Department except the Public Health Service, part of which is included under group II (item 73) and part in group V (item 94); the work of the supervising architect's office, maintenance and operation of public buildings (item 48) and construction of public buildings (item 83); and the War Risk Insurance, item 92 of group V.

In the Interior Department, items 20 to 25 cover the governmental functions, whereas the Geological Survey, Bureau of Mines, Bureau of Education and Howard University (items 66 to 68) are in group II because of their research and educational work, and the Reclamation Service (item 86) is in group III because it is so largely new construction. The Post Office Department proper includes the salaries and expenses of the overhead administration in the District of Columbia, and item 27 includes minor miscellaneous

items. Item 28 is the deficiency or surplus, usually brought over once a year, from the postal service fund, which is kept separate in the Treasury, to which is credited all the revenues from the entire postal service, and to which is charged the entire operating expenses of the postal service. The result of this is that the net cost of the entire Post Office Department appears each year in the sum of items 26, 27 and 28, and as already explained there was a surplus in five of the ten years from 1910 to 1919, inclusive, and a slightly larger aggregate deficit in five. In 1920, there was a relatively large deficit because of increase in salaries to postal employees and additional compensation to the railroads.

In the Department of Agriculture, items 29 to 32 cover governmental functions and items 50 to 65 in group II the research and educational work. Item 29 includes the statutory salaries, mainly administrative and clerical, for all the bureaus; they are not given separately for each bureau in the Treasury publications. It is believed that by charging this item to group I and the lump sum appropriations to the respective bureaus in group II, we have a fair allocation of expenses between the governmental and educational work.

In the Department of Commerce it is difficult to make a decision in some cases, as between groups I and II, but it is believed that the grouping given is a fair division. If the bureaus were to be split up and a more detailed classification made, the amounts allotted to group II would probably be somewhat reduced. The Department of Labor is divided between group I (items 38 and 39) and group II (items 74 and 75). The remaining items of group I are self explanatory, the District of Columbia item being, since 1878, one-half the expenses of the

TABLE I
SUMMARY OF RECEIPTS AND EXPENDITURES OF THE UNITED STATES FOR THE FISCAL YEARS, 1910-1920

	1910	1911	1912	1913	1914	1915	1916	1917	1918	1919	1920
Receipts Minus Refunds											
1 Customs, less Refunds	\$923,510,307.50	\$903,068,042.49	\$901,770,608.79	\$910,257,119.09	\$828,773,870.45	\$107,063,176.16	\$104,356,351.59	\$806,027,355.45	\$107,073,689.00	\$171,110,321.07	\$206,274,230.35
2 Internal Revenue, less Refunds	259,144,650.88	321,519,901.09	360,978,399.60	345,418,743.77	378,014,864.16	413,451,384.08	510,445,023.32	805,332,024.60	3,000,875,547.22	5,885,162,674.00	5,870,533,010.56
3 Tax on National Bank Circulation	3,833,011.03	3,803,592.48	8,837,098.78	3,793,059.08	3,988,188.14	3,908,808.10	3,888,094.25	3,611,904.48	4,091,310.35	3,806,646.42	7,172,566.48
4 Postal War Revenue (3 years only)									39,073,000.00	71,906,000.00	4,913,000.00
5 Total Tax Revenue	\$815,996,908.41	\$822,391,306.96	\$826,336,108.17	\$857,406,001.94	\$806,762,032.75	\$815,023,187.09	\$708,639,408.16	\$81,014,998,012.48	\$81,005,005,540.39	\$8,877,715,848.39	
6 Trust Funds, Loans, Seigniorage	5,484,718.80	4,637,317.17	4,387,317.38	4,786,337.29	3,998,319.27	938,416.30	7,268,234.39	-887,083,401.50*	-4,349,232,464.39*	-3,896,042,687.05*	-515,885,234.18*
7 Increase or Decrease* in Public Debt	-1,735,405.00*	22,650,832.65	93,427,883.47	-769,769.50*	-8,940,104.50*	5,833,464.00	83,768,489.00	1,750,473,017.98	8,086,016,314.48	13,839,410,506.62	-1,164,096,821.40*
8 Amount Drawn from General Fund*	19,456,189.07	-33,122,417.90*	-27,048,755.37*	1,539,374.74	4,479,361.14	58,077,008.35	-75,461,182.38*	-783,912,355.55*	948,226,737.30	1,059,381,130.50	618,801,832.61
9 Total	\$838,502,409.68	\$822,537,238.88	\$826,537,553.05	\$802,761,633.47	\$874,210,108.68	\$879,712,455.94	\$874,230,019.07	\$1,038,464,372.73	\$8,665,700,922.57	\$14,476,751,406.32	\$4,008,531,125.36
Expenditure Minus Earnings											
10 Civil Expenditures, Group I	\$102,227,054.05	\$93,082,691.22	\$82,371,638.94	\$92,838,157.72	\$91,313,408.17	\$110,865,352.38	\$114,742,624.38	\$106,676,386.16	\$125,304,304.32	\$139,846,546.41	\$224,110,591.16
11 Civil Expenditures, Group II	25,394,068.14	27,395,498.07	22,849,497.73	21,911,972.83	22,874,599.13	30,000,474.01	27,719,393.96	28,484,545.00	34,773,717.53	37,879,567.00	57,908,779.38
12 Civil Expenditure, Group III	79,705,700.48	85,564,709.85	87,865,581.92	95,568,921.40	85,974,380.41	94,401,733.92	58,893,247.50	62,739,738.29	62,491,928.29	54,532,158.00	85,071,042.11
13 Total for Groups I-III	207,125,857.37	\$106,640,987.74	\$826,537,553.05	\$821,352.64	\$870,039,081.95	\$910,182,357.70	\$921,388,542.31	\$801,427,156.35	\$109,860,650.05	\$829,458,285.14	\$831,858,932.40
14 Army and Navy, Group IV	247,265,064.80	245,019,666.57	247,019,639.39	250,205,645.88	264,514,046.88	258,465,240.71	288,051,628.44	688,839,486.37	7,045,926,597.42	11,192,817,468.69	1,348,892,746.59
15 Pensions, Care of Soldiers, V	102,508,500.54	150,770,178.15	155,378,755.62	177,305,117.04	175,856,988.82	186,514,583.03	161,139,768.27	162,094,348.54	226,641,009.19	309,714,708.73	389,261,746.34
16 Special War Activities, VI									33,060,500.83	1,094,994,128.53	2,877,710,884.88
17 Interest on Public Debt, etc., VII	22,583,247.77	23,120,486.62	24,448.95	25,211,508.00	23,506,975.20	23,644,080.04	23,817,465.61	25,305,915.75	77,510,021.29	24,653,181.77	929,131,127.70
18 * Total for Groups I-VII	\$838,502,409.68	\$822,537,238.88	\$826,537,553.05	\$802,761,633.47	\$874,210,108.68	\$879,712,455.94	\$874,230,019.07	\$1,038,464,372.73	\$8,665,700,922.57	\$14,476,751,406.32	\$4,008,531,125.36
CONDENSED SUMMARY, OMITTING LOANS, TRUST FUNDS AND PUBLIC DEBT											
Net Revenue											
Customs	\$923,510,307.50	\$903,068,042.49	\$901,770,608.79	\$910,257,119.09	\$828,773,870.45	\$107,063,176.16	\$104,356,351.59	\$806,027,355.45	\$107,073,689.00	\$171,110,321.07	\$206,274,230.35
Internal Revenue	259,144,650.88	321,519,901.09	360,978,399.60	345,418,743.77	378,014,864.16	413,451,384.08	510,445,023.32	805,332,024.60	3,000,875,547.22	3,885,162,674.00	5,870,533,010.56
Tax on National Bank Circulation	3,833,011.03	3,803,592.48	8,837,098.78	3,793,059.08	3,988,188.14	3,908,808.10	3,888,094.25	3,611,904.48	4,091,310.35	3,806,646.42	7,172,566.48
Postal War Revenue (3 years only)									39,073,000.00	71,906,000.00	4,913,000.00
Total Net Revenue	\$815,996,908.41	\$822,391,306.96	\$826,336,108.17	\$857,406,001.94	\$806,762,032.75	\$815,023,187.09	\$708,639,408.16	\$81,014,998,012.48	\$81,005,005,540.39	\$8,877,715,848.39	
Net Expenses											
Civil, Groups I, II and III	207,125,857.37	\$106,640,987.74	\$826,537,553.05	\$810,039,081.95	\$910,182,357.76	\$821,388,542.31	\$801,427,156.35	\$109,860,650.05	\$822,458,285.14	\$831,858,932.40	\$86,551,410.37
Army and Navy, Group IV	247,265,064.80	245,019,666.57	245,019,639.39	250,205,645.88	264,514,046.88	258,465,240.71	288,051,628.44	688,839,486.37	7,045,926,597.42	11,192,817,468.69	1,348,892,746.59
Pensions, Interest and War Miscellaneous	183,151,757.51	182,398,574.77	17,307,271.42	292,518,925.04	199,853,674.03	199,853,693.92	194,751,334.03	292,750,674.11	1,400,946,740.01	3,032,078,775.43	2,993,087,968.50
Total Net Expenses	\$810,512,469.08	\$822,537,238.88	\$826,537,553.05	\$802,761,633.47	\$874,210,108.68	\$879,712,455.94	\$874,230,019.07	\$1,038,464,372.73	\$8,665,700,922.57	\$14,476,751,406.32	\$4,008,531,125.36
Net Revenue from Taxation	215,996,908.41	228,391,306.96	234,388,108.17	237,406,001.94	266,672,032.75	215,093,187.09	208,638,408.16	2,014,998,012.48	3,801,710,403.46	4,075,005,540.39	5,871,712,848.39
Deficit of Revenues below Current Expenses	283,505,500.27		1,031,445.49	\$5,355,651.53	\$7,393,075.01	\$64,689,289.05			\$74,474,220.35	\$4,706,994,427.09	\$10,401,748,066.18
Surplus of Revenues over Current Expenses		\$5,634,248.08						\$34,400,389.49			\$1,070,151,723.03

* Amounts with minus sign prefixed are to be subtracted.

District in lieu of taxes on federal property; recently, however, the ratio of expense has been changed by Congress to 40 per cent by the Federal Government and 60 per cent by the District. Both the War and Navy Departments are, of course, doing a large amount of scientific and engineering work, but as it is of direct military application, it is proper to leave it in group IV. The Naval Observatory, however, is doing astronomical work of a scientific rather than naval character and might have been included in group II. Further explanation of these various activities will follow.

Before proceeding to an examination of the activities of the government in the various groups, let us examine the summarized balance sheet for the eleven fiscal years, 1910–20, showing the receipts from taxation and net disbursements for current expenses, as well as the total of loans and trust funds and the net balance each year of public debt transactions.

Net Revenue and Net Expenses

The accompanying table 1 gives a summarized balance sheet of government net revenues and net expenditures for the eleven fiscal years 1910–1920, inclusive, that is, from July 1, 1909 to June 30, 1920. This is the result of the detailed analysis mentioned above of the government's receipts and expenditures for this period, and may be given here in order to obtain a general view of the expenditures by groups before proceeding to a more detailed consideration of the functions and costs of the activities within the various groups.

Line 1 gives the customs receipts less refunds, that is, the net revenue to the Treasury from customs. These amounts differ from the amounts given in the Treasury reports, as the latter

give under "receipts" the gross receipts (including overpayments and deposits intended to be refunded) and include under "disbursements" the refunds along with expenses. Line 2 gives in the same way the internal revenue receipts less refunds, that is, the net revenue, after refunds are deducted. Line 3 gives the tax on national bank circulation, which is a taxation for revenue, and not payment for a service rendered. Line 4 gives the revenue derived from the Post Office during the war period when three cent letter postage was in effect, the third cent having been a war tax and the entire proceeds turned into the Treasury. Line 5 gives the total revenue derived from taxation, being the sum of the above four items.

Line 6 gives the receipts in excess of disbursements (or vice versa) of loans, trust funds and seigniorage in connection with coinage. Up to 1916 the receipts each year were in excess of disbursements; since then, due to loans to European governments, the disbursements have largely exceeded the receipts. Line 7 gives the balance of public debt transactions. When the payments exceeded the receipts, the public debt decreased and the amount is preceded by a minus sign and marked with a star; in such cases the amount is to be subtracted in making the additions. Line 8 gives the amount that was expended from the general fund; in other words, the increase or decrease of cash on hand in the Treasury at the end of each year as compared with the beginning. A minus sign indicates that more was put into the general fund than drawn out; that is, the general fund increased during the year. Line 9 gives the sum of net revenues from taxation and net funds available from the above-named financial transactions; that is, the total

sum available to pay the expenses of the government for each year.

Line 10 gives the total net expenses for the civil activities of the government included in group I, that is, the legislative, executive and judicial group. Line 11 gives the expenses for group II, research, education and development. Line 12 gives the expenses for group III, the new construction classed as public works. Line 13 gives the total for these three civil groups, which averages \$211,337,288 per year for the ten years 1910-19, inclusive, or \$2.14 per capita of the population of the country.

Line 14 gives the net expenses for the army and navy, group IV; line 15 gives pensions and care of soldiers and War Risk Insurance during the war; line 16 gives the cost of the special war activities during the years 1917-20 inclusive; line 17 gives interest charges, being interest on the public debt and trust funds, less interest received and also in recent years less discount on liberty bonds repurchased. Line 18 gives the total of the current expenses of each year, equal to the sums given in line 9.

Below is given a more condensed statement of net revenue and net expense with loans, trust funds and public debt transactions omitted, showing the surplus or deficit each year. There was a deficit of net revenue from taxation below net expenses every year except 1911, 1916 and 1920. The surplus in 1920 was \$1,079,181,723.03, counting loans as investments and not expenses. This surplus was used together with a considerable sum from the general fund in making loans to farmers and to European governments, and in reducing the public debt, the latter having been reduced by \$1,184,098,321.46 during the fiscal year 1920.

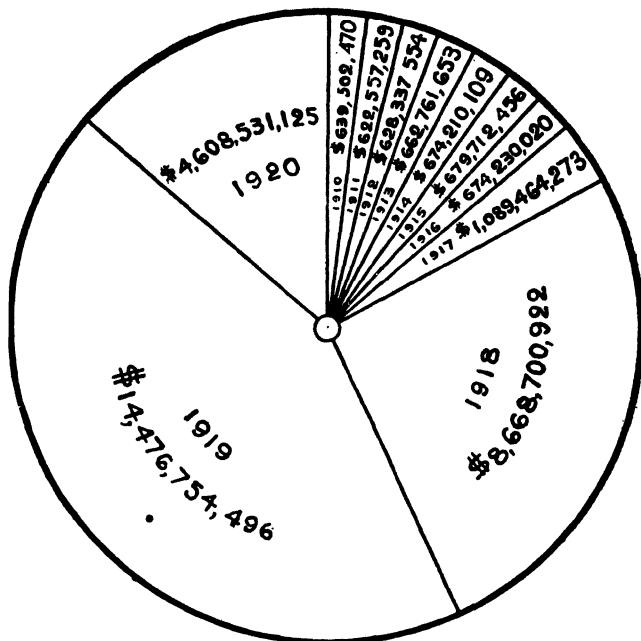
Figure 1 shows graphically the relative net expenses of the government

during the eleven-year period, with a total of \$33,424,762,337, not including the loans to European governments and other loans and trust funds, and figure 2 shows the relative revenues during the same period and plotted to the same scale.

The Cost of the War

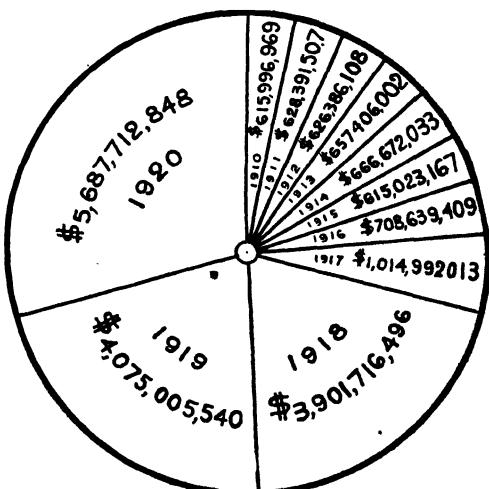
From the figures given in Table 1, it is possible to calculate the expenditures on account of the war over and above what would probably have been expended had the war not occurred. Figure 3 gives a graphical representation of the expenditures during the eleven fiscal years 1910-20, divided into three parts. At the left are the total net expenses of the government shown in a series of small rectangles, from 1910 to 1916, inclusive, drawn to scale. Below these seven years are the four years 1917-20, with the expenses estimated as what they would have been if the war had not occurred. These are the total net expenses of groups I, II and III, plus the estimated expenses for the Army and Navy, \$275,000,000 per year, pensions \$160,000,000 per year, interest on the public debt \$25,000,000; total for these three items \$460,000,000. The excess over this sum of the expenditures for groups IV, V, VI and VII during these four years is plotted at the right as the cost of the war. The amount of loans to European governments is plotted below the war cost on the same scale.

Table 2 in the first column gives the excess of the expenses of the government over the estimated normal expense as shown in Figure 3. The second column gives the excess of revenues from taxation over the same estimated normal expense. The sums of these amounts for four years gives in the first column the total expenditures on account of the war



TOTAL NET EXPENSES FOR ALL PURPOSES
\$33,424,762,337
(Not including loans, trust funds, etc.)

FIGURE 1



TOTAL NET TAX REVENUE
\$19,197,942,092

FIGURE 2

Fig. 1 represents the total net current expenses of the government for the period, excluding payments on the Public Debt, loans and trust funds. Fig. 2 represents the total net tax revenue, comprising the Internal Revenue and Customs less refunds and rebates, the tax on National Bank circulation and the extra postage war revenue during the years 1918-1920. The two figures correspond respectively to lines 18 and 5 of Table 1. The scale to which they are drawn is such that unit area represents the same amount of money in both.]

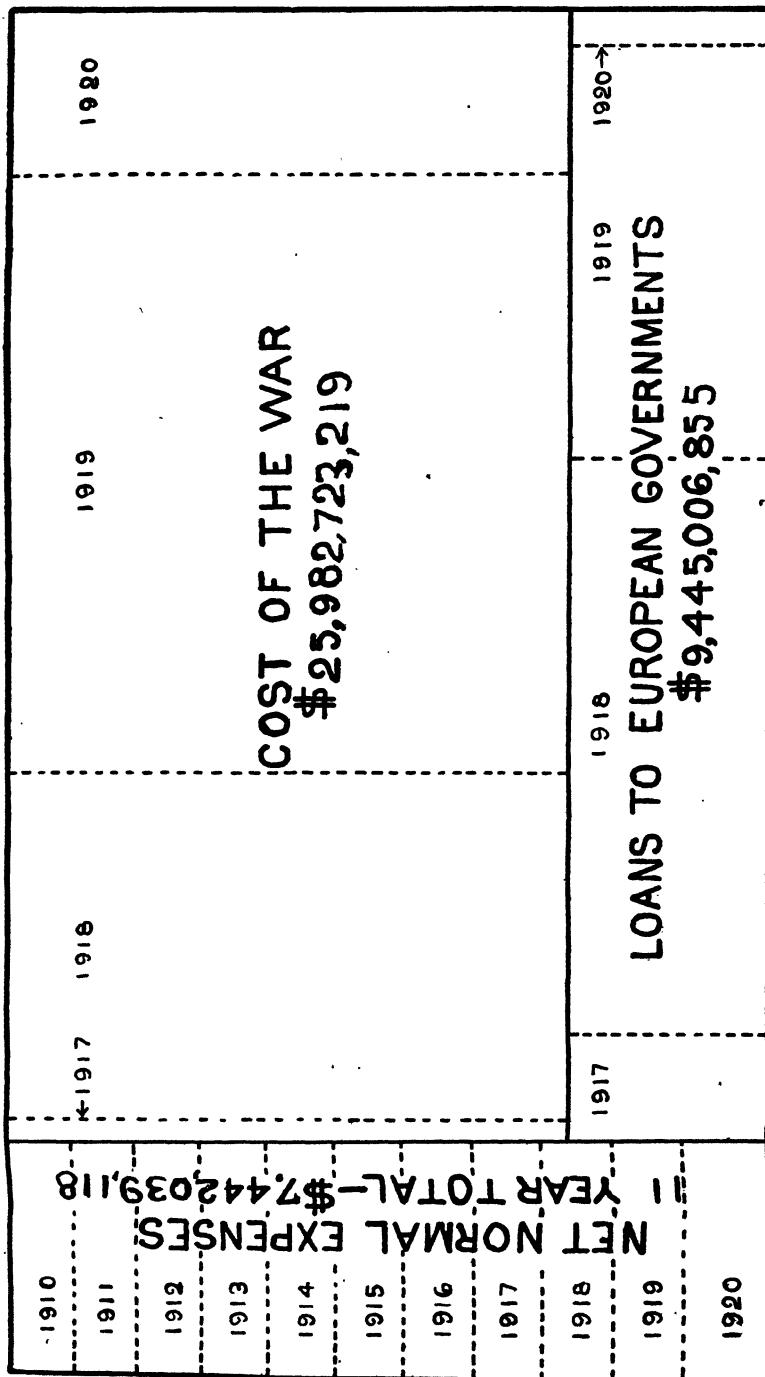


FIGURE 3

Fig. 3 represents the total net current expenses in the years 1910-1920, and in addition the net loans (less repayments) to European governments during that period. The expense items are the same as those in Fig. 1, but are shown segregated into normal expense and war cost during the years 1917-1920. The details and the basis of segregation are given in Table 3.

(excluding loans to European governments and all domestic loans) and in the second column the amount paid from current revenues from taxation in four years toward liquidating the cost of the war. The ratio of the second total to the first is 45.5 per cent. In other words, in these four years, we have paid over and above the estimated normal expenses of the government 45.5 per cent of the cost of the war, leaving 54.5 per cent to be

this expenditure? What is the reason for so many departments and bureaus? Is it practicable or desirable to reduce the number or to abandon some of the work done? Figure 4 shows the average net expenditures by departments, and figure 5 the average total expenditures, earnings (in black) and the net expenses, somewhat more detailed than in figure 1.

First of all is the legislative branch of the government, the Senate and

TABLE 2

	Excess of expenditures over estimated normal expenditures on a pre-war basis	Excess of revenue over estimated cost of government on a pre-war basis
1917.....	\$429,603,623	\$355,131,362
1918.....	7,986,242,636	3,219,258,211
1919.....	13,784,896,245	3,383,147,288
1920.....	3,781,980,715	4,861,162,439
Total.....	\$25,982,723,219	\$11,818,699,300

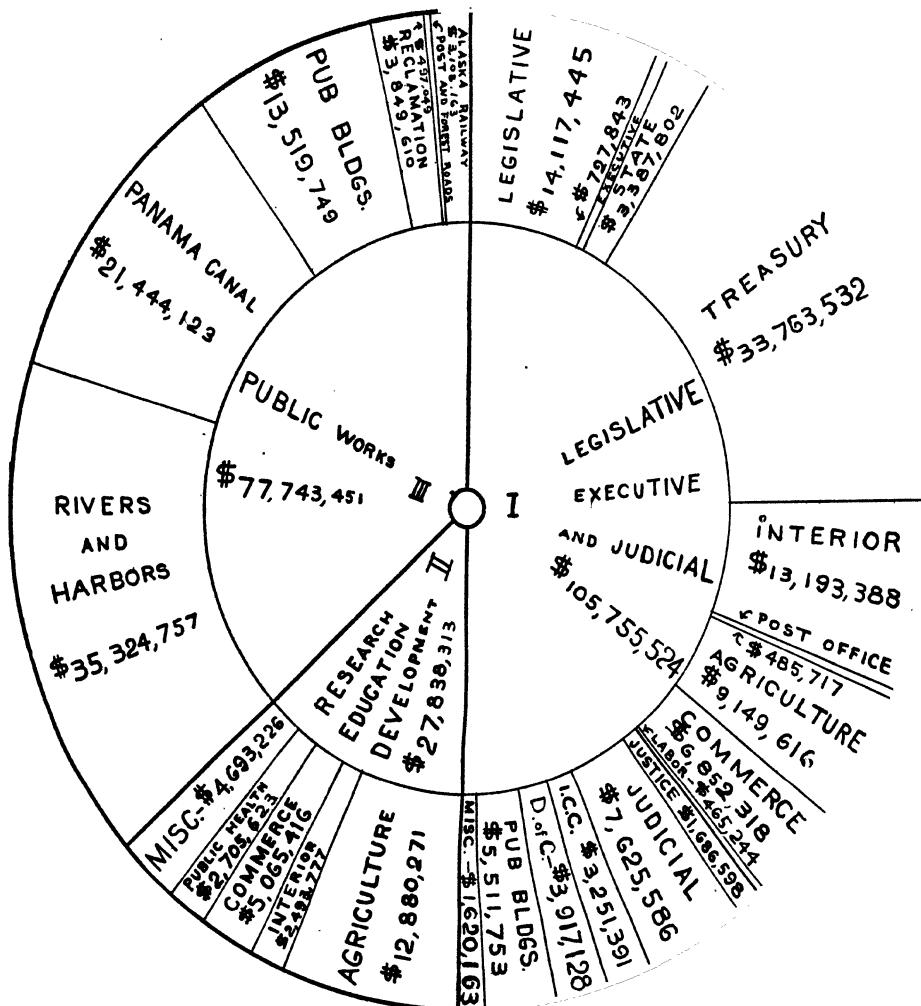
paid in the future, in addition to all the indirect and continuing costs not included in the above. This assumes that loans to European governments will be paid, principal and interest, as well as domestic loans, and leaves out of account the further expenses of the railroad administration, the permanent increased costs of the Army and Navy, pensions and war risk insurance, shipping board, etc., as well as the permanent increases in the cost of all civil activities of the government.

Group I Primary Governmental Functions

The wide range of activities included in group I comprise the legislative, executive and judicial functions of a great government, and cost the people of this country \$105,755,525 per year on the average for the ten fiscal years, 1910-19, inclusive. It is a fair question to ask, what is accomplished by

House of Representatives and the clerical and operating staff for the Capitol and the Senate and House Office buildings, and the maintenance of the Capitol buildings and grounds, with an average expenditure for ten years of \$8,347,167. This includes also under legislative miscellaneous during this period, the greater portion of the cost of the beautiful memorial to Abraham Lincoln, now nearing completion.

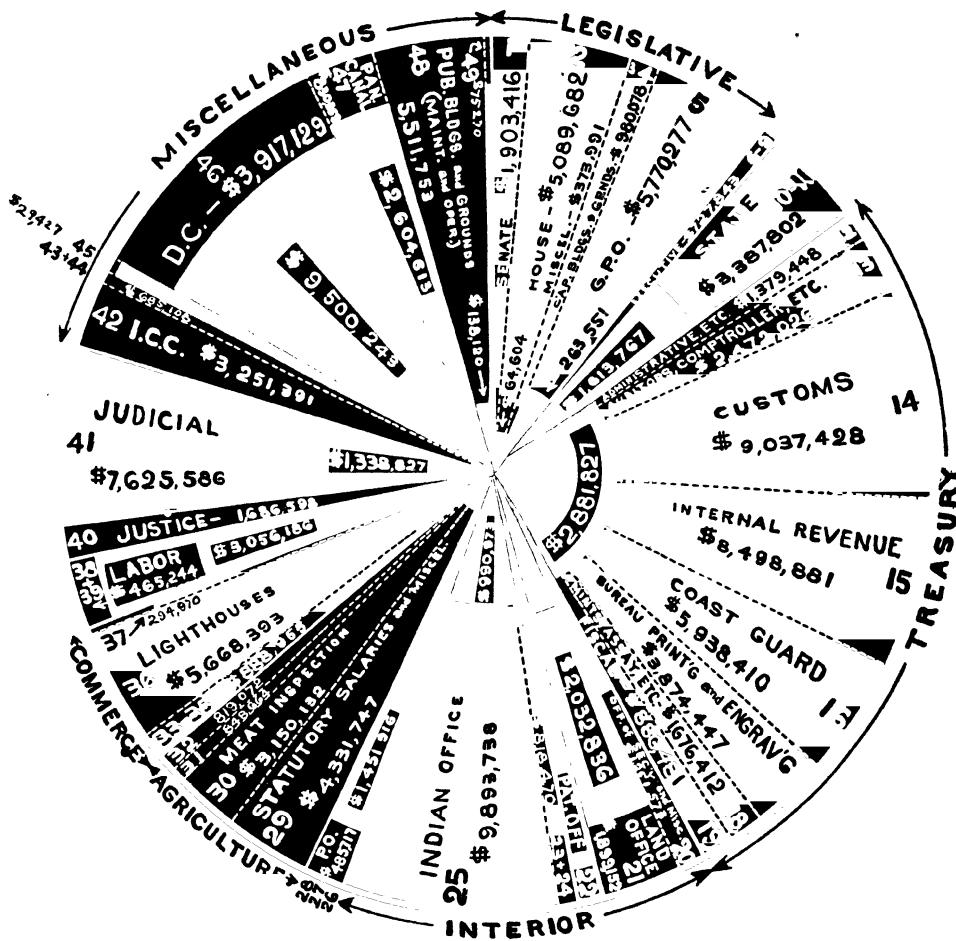
The government printing office, which serves all branches of the government, legislative, executive and judicial, and is one of the largest printing offices in the world, expended an average of \$5,770,278 above receipts. This seems a large sum, but it is only about five cents per capita per year of the population of the country, and when we consider the great variety of work done by the government, and that a large part of it is valueless unless made known by publication and utilized



GROUPS I, II and III — CIVIL ACTIVITIES
AVERAGE NET EXPENDITURE—1910-1919—\$ 211,337,288

FIGURE 4

Fig. 4 shows in some detail the items which appear in the first third of Fig. 9, but on a larger scale and with the average amounts expended for the separate activities inserted. The sum shown for the Post Office is the average net cost payable from taxation, including all deficits and surpluses, and was \$485,717 per year for the ten-year period. The net expense of the Labor Department is small because of the large receipts from the Immigration Service. The District of Columbia paid into the Treasury more than one-half its total net expenses for the ten-year period, so that the cost to the Federal Government as shown in the chart is less than one-half the total net cost of its administration. Interior, Agriculture, Commerce and Labor are divided between Groups I and II, the primary governmental part being included in Group I and the functions that concern research, educational and developmental work are included in Group II.



GROUP I - PRIMARY GOVERNMENTAL FUNCTIONS

AVERAGE ANNUAL EXPENDITURES AND EARNINGS 1910-1919



TOTAL AREA OF SECTOR REPRESENTS GROSS DISBURSEMENT
SHADED AREA REPRESENTS RECEIPTS
UNSHADeD AREA REPRESENTS NET EXPENDITURE

FIGURE 5

The numbers associated with each sector correspond to the number of the item in the classification followed. While the average annual gross expenditure for the ten-year period was \$137,888,924, the average annual net expenditure for the period was \$105,755,525.

It should be noted that the receipts for the Treasury sub-groups refer only to fees, fines, forfeits and miscellaneous earnings, and do not include any of the internal revenue and custom taxes collected, these being separately itemized in Group IX—Revenues.

by the people interested, it seems very moderate if not indeed inadequate. During this ten-year period, paper and printing outside the government has more than doubled in cost, and yet the expenditure by the government printing office increased very little until 1918 and less than 50 per cent during 1918 and 1919 over the 1910-17 average, notwithstanding the great increase in governmental activities due to the war during those years, and the great increase in the cost of materials and labor. In some departments there have been little or no increases in appropriations in recent years, notwithstanding the large increase in printing costs and the growth of their work. This, of course, means a very considerable reduction in printing and less educational work in proportion, which in some departments at least was very seriously felt.

The average expenditure for the President, Vice-President and White House staff was \$201,045 per year, and for the Civil Service and Tariff Commissions and the Bureau of Efficiency together, \$526,798, the entire executive group costing less than one cent per year per capita of the country's population.

The Civil Service Commission is one of the lowest paid branches of the service, and its staff is so inadequate for the great volume of work thrown upon it that it has had to borrow more than two hundred men and women from other departments to keep up with its most urgent work. It has been unable even to attempt to do generally throughout the service the very important work of supervision and co-operation with administrative officers that the Civil Service law contemplates. The Bureau of Efficiency occupies an important field, part of what a budget bureau would be expected to cover.

Surely one would expect in a reorgan-

ized and developed government service that this group of activities included under "executive" would be considerably expanded rather than curtailed, and that in the interest of efficiency and good government more money rather than less would be expended upon it.

The State Department is our department of foreign affairs. It conducts correspondence and negotiations with foreign governments, deals with the representatives of foreign governments in this country, is the channel of communication between the President and the chief executives of all the separate states, and records and promulgates all laws passed by Congress. It maintains diplomatic and consular representatives in nearly all countries of the world. Aside from the salaries of a large staff of accredited representatives and their assistants and clerks, the cost of travel and communication is necessarily very large. The war threw an enormously increased responsibility on the State Department, both at home and abroad, and its net expenditures increased from an average of \$2,614,643 during the period 1910-16 to \$3,648,075 in 1917, \$4,677,254 in 1918, \$7,250,190 in 1919 and \$8,520,517 in 1920. Americans who traveled abroad before the war felt the need of more adequate provision for our foreign representatives, and if the increased appropriations of the last few years have enabled the State Department under these trying conditions to overcome some of the handicaps of the past, and to cope adequately with the problems brought on by the war, we ought to be grateful for the more generous appropriations.

The Treasury Department not only handles the fiscal affairs of the government, but it supervises the banking of the nation. It maintains the national currency, collects the revenues, turns over to disbursing officers in all de-

EXPENDITURES AND REVENUES OF THE FEDERAL GOVERNMENT

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TABLE 3
AGGREGATE EXPENDITURES AND FOREIGN LOANS OF U. S. GOVERNMENT
FISCAL YEARS 1910-1920

Year	Normal Net Expense	Net War Cost (Excess above estimated normal expenses)			• Loans to European Govts. (less repayments)
		Excess Army and Navy	Excess Interest, Pensions, etc.	Special War Activities	
1910.....	\$639,502,470				
1911.....	632,557,259				
1912.....	628,337,554				
1913.....	602,761,653				
1914.....	674,210,109				
1915.....	679,712,456				
1916.....	674,230,020				
1917.....	639,360,650*	\$393,852,949	\$2,690,164	\$33,060,510	\$429,603,623
1918.....	682,458,285*	6,770,295,897	120,932,611	1,094,994,128	7,986,212,636
1919.....	691,858,252*	10,917,817,469	379,307,891	2,487,710,885	13,784,896,945
1920.....	826,550,410*	1,073,892,747	1,073,392,874	1,634,695,094	3,781,930,715
Total.....	\$7,442,039,118	\$19,155,859,062	\$1,576,403,540	\$5,250,460,617	\$25,982,723,219
					\$9,445,006,855
* Assuming the following as normal for 1917 to 1920 if the war had not occurred:					
Army and Navy.....	\$275,000,000	Net Normal Expense, 11 yrs.....			\$7,442,039,118
Pensions and Care of Soldiers.....	160,000,000	War Cost, 4 yrs.....			25,982,723,219
Interest.....	25,000,000	Loans to Europ. Govts. 4 yrs.....			9,445,006,855
		Total.....			\$42,869,769,192

GROUP I — PRIMARY GOVERNMENTAL FUNCTIONS

NET EXPENDITURES—1910—1919



FIGURE 6

This figure shows the distribution of the net expenses of the sub-groups in Group I for each year and for the ten-year average. The increases since 1910 in the State, Treasury, and Justice Departments are in large part attributable to increased activities resulting from the war; as for example, the expansion of the Diplomatic and Consular Service, and the increased allowances necessitated by increased living costs abroad, as well as increased administrative overhead; the collection and disbursement of the large sums required to meet the cost of the war; and added activities incident to the anti-protection, sedition and espionage acts.

In the case of the Post Office, Labor and Miscellaneous sub-groups, a line drawn to the right represents a net expenditure and a line drawn to the left represents an excess of receipts over disbursements.

The large expenditure in the Interior Department in 1910 is explained by a court judgment in favor of the Indians for over \$4,000,000, which was paid during that year.

The miscellaneous item includes the Federal Trade Commission, the Employees Compensation and Retirement Commissions, the Federal Reserve Board, maintenance and operation of the Panama Canal and of public buildings.

partments the funds appropriated by Congress as they are required, audits all bills and the accounts of disbursing officers, keeps the accounts and records of all fiscal transactions of the government, and assembles and forwards to Congress the estimates for all branches of the government. The Secretary of the Treasury submits to Congress estimates of the probable revenues and disbursements of the government, makes recommendations regarding the raising of revenue, manages the sale and redemption of bonds and other measures for the support of the public credit. The department controls the construction and maintenance of public buildings throughout the country; the coinage and printing of money; and the engraving and printing of postage stamps, bonds and other documents. It administers the Coast Guard (the successor of the Revenue Cutter Service and the Life Saving Service), and has charge of the Public Health Service listed in group II with other scientific and educational work. It also has charge of the War Risk Insurance of group V. It manages the extensive customs service at all the ports and gateways of the country, inspecting, testing, and measuring imports, classifying and appraising the same, levying and collecting the customs duties thereon. It manages, through the Commissioner of Internal Revenue, the collection of all income and other internal revenue taxes; the enforcement of internal revenue laws and the national Prohibition Act. This is the largest division of the Treasury Department and collects the great bulk of the revenue of the government. More than five billions of dollars were collected last year, at a cost for collection of only 0.6 per cent, including the cost of enforcing all the revenue and prohibition laws.

This is a remarkable business organi-

zation, of which the Treasury Department is proud, and there are large numbers of people in the country who marvel at the completeness of its knowledge of the business it handles. The net expenditures of the Treasury Department in group I averaged \$29,680,620 during 1910-16, and were \$33,383,592 in 1917, \$40,186,382 in 1918, \$56,301,012 in 1919, and \$75,653,377 in 1920. The business of the Treasury was greatly increased by the war, although the above figures do not include the special expenses of selling liberty bonds.

Only a part of the work of the Interior Department is included in group I. The Land Office and Land Service had an income of more than half their expenses, the net expense above receipts averaging \$1,899,153. The Patent Office expended on the average \$1,465,657 per year and earned \$2,135,202, its total earnings in ten years above expenses being \$6,695,450. An effort is being made to secure for the Patent Office higher salaries and a larger staff in order to improve its service. The public pays in fees more than the total cost, and it is very important that the service be competent and satisfactory. The average net expenses of the Indian Service for the ten years was \$9,893,738 per year. This includes the expenses of the Indian agencies, the support of Indians, the support of Indian schools, and fulfilling treaty stipulations with the Indians. It does not include the trust funds handled for the Indians or the interest on these trust funds, which funds now amount to over thirty million dollars.

The Post Office Department, as already explained, was very nearly self-supporting during this ten-year period, the net deficiency amounting to only \$485,717 on the average, less than a quarter of one per cent of the business

done. All government mail service is carried free, and newspapers within the county where published (but outside of city free delivery areas) are carried free. There has been little increase of postage rates, except the extra cent on first class matter during the war, and that was all turned over to the Treasury as war revenue.⁴ This gratifying result, however, probably can not be continued. In 1920 there was a deficit of \$38,000,000 caused by increase of compensation to employes and the railroads. The railroads and other public utilities have found it necessary to increase rates, in some cases nearly 100 per cent, and it should not be surprising if the Post Office found it necessary to make further increases in rates.

In the Agricultural Department, the meat inspection service, the enforcement of grain standards, pure food laws, animal quarantine acts, the acquisition of lands to protect water sheds, together with administrative and governmental work, cost on an average \$9,149,616 per year. These are governmental functions of a very fundamental character, mostly in the interest of the public health, and could not well be curtailed. The scientific work of the department is included in group II.

In the Department of Commerce, the general administration of the department, the Bureau of Navigation, the Steamboat Inspection Service, the Bureau of Lighthouses, and the Bureau of Foreign and Domestic Commerce, all together cost on an average \$6,852,318 per year above earnings from the ten-year period. The Bureau of Navi-

⁴ The postal rates for second class matter were increased at the beginning of the fiscal year 1919. The revenues were thereby increased for this last year of the ten-year period about \$4,800,000 which is a little more than one per cent of the postal revenues for the year. In 1920, the corresponding increase was about \$12,035,000, nearly three per cent of the total postal revenues.

gation has charge of the commercial marine, the issue of registers, enrollments and licensing of vessels, the enforcement of the navigation laws and laws governing radio communication and other matters connected with shipping. The Steamboat Inspection Service inspects vessels and their boilers and equipment, and licenses marine engineers and others. The duties devolving on these inspection services have greatly increased and the department feels the need for more ample funds for the work.

The Bureau of Lighthouses is charged with the establishment and maintenance of aids to navigation on the sea and lake coasts (and some rivers) of the United States, such as lighthouses and lightships, buoys and lights, and publishes information for mariners. The importance of such aids to navigation and the small number of lives lost per annum upon ships in our waters constitute, it is believed, a full justification for the work and expense of this Service.

The Bureau of Foreign and Domestic Commerce is concerned with the development of commerce and our export trade. The importance of foreign trade to a great nation, and the opportunity and duty of the government in fostering that trade in all legitimate ways, need not be emphasized. In view of the position of America as a world power, and in view of the general desire that our foreign commerce may be not only profitably but creditably conducted, it would seem that this function of the government should be developed and strengthened.

The Immigration and Naturalization service was more than self-supporting during the five fiscal years, 1910-14, by reason of the fees collected from immigrants. During the five war years, 1915-19, immigration fell off very greatly, however, and the receipts

decreased correspondingly. The average net cost of these services for the ten-year period amounted to \$465,244 per year, which was only about 13 per cent of the total cost. A considerable amount of useful educational work is being done in the Bureau of Naturalization, in preparing for citizenship those who are being naturalized, and it would be of immense value to the country if this work could be greatly strengthened.

The Department of Justice is the law department of the government. It has charge of the government's interests in cases in the federal courts, and furnishes solicitors to all the other departments. It exercises general superintendence and direction over United States attorneys and marshals in all judicial districts throughout the country. Its activities have been greatly increased by the war, and its net expenses have increased from an average of less than \$1,500,000 during the years 1910-17 to \$2,321,566 in 1918, \$3,180,150 in 1919, and \$4,496,082 in 1920.

Under judicial are included the federal courts and penal establishments throughout the country, the average net expenses of which were \$7,625,586 per year during the ten-year period 1910-19, increasing very little during this period, and \$10,789,974, in 1920. This total includes the salaries of the judges of the Supreme Court, circuit and district courts, courts of custom and claims; salaries and expenses of United States marshals, district attorneys and assistant attorneys; clerks and bailiff of courts; fees of commissioners, jurors and witnesses; and the support of prisoners and expenses of federal penitentiaries at Atlanta and Leavenworth.

The Interstate Commerce Commission has jurisdiction over the railroads of the country. During the first five years of the ten-year period,

its expenditures averaged \$1,499,420 per year; during the last five years they averaged about \$5,003,363 per year. The difference was largely owing to the valuation of the railways in the latter period. In 1920, net expenses were \$5,750,470. No one doubts the necessity for the work of this Commission, and it certainly should be done thoroughly and by competent engineers, economists and railway experts. The Commission has built up a very fine organization, pays much better salaries than most branches of the government services employing engineers and other technically trained men, and is giving a useful demonstration of the advantages to the government service of a suitable salary scale and adequate funds to pay salaries and expenses.

The Federal Trade Commission (like the Interstate Commerce Commission) is independent of all executive departments. It was created in 1914, and replaced the Bureau of Corporations of the Department of Commerce. It investigates the organization and management of corporations with respect to possible violation of antitrust laws, through price discrimination, unfair methods of competition or otherwise; it also investigates trade conditions in foreign countries with respect to combinations affecting the foreign trade of the United States. The Bureau of Corporations expended \$216,272 per year for the first six years, 1910-15; the Federal Trade Commission expended an average of \$782,389 for the four years, 1916-19, increasing from \$369,950 in 1916 to \$1,552,244 in 1919, and being \$1,019,446 in 1920. These appear to be very moderate sums, if not indeed very inadequate sums, for such important work.

A part of the expenses of the District of Columbia, that is, the city of Washington, the Capitol of the Nation, is

included in group I. The maintenance and operation of the Panama Canal, and of all the federal buildings in the United States (except the War and Navy buildings) are included in this group. Extraordinary expenses (item 49) covers expenses incident to bringing home Americans at the outbreak of the war, war risk insurance on ships in 1915 and 1916, and the amount expended for the centennial celebration of Perry's victory on Lake Erie.

All the functions performed under the 49 headings of group I, legislative, executive and judicial, very imperfectly sketched in the preceding pages, cost the people during this ten-year period *an average of \$1.07 per year per capita of the population of the country.* In comparison with the cost of state and city government it is surprisingly small. In 1920, however, for reasons which we shall see later, the cost was nearly double this average, and it is not unlikely to become still larger.

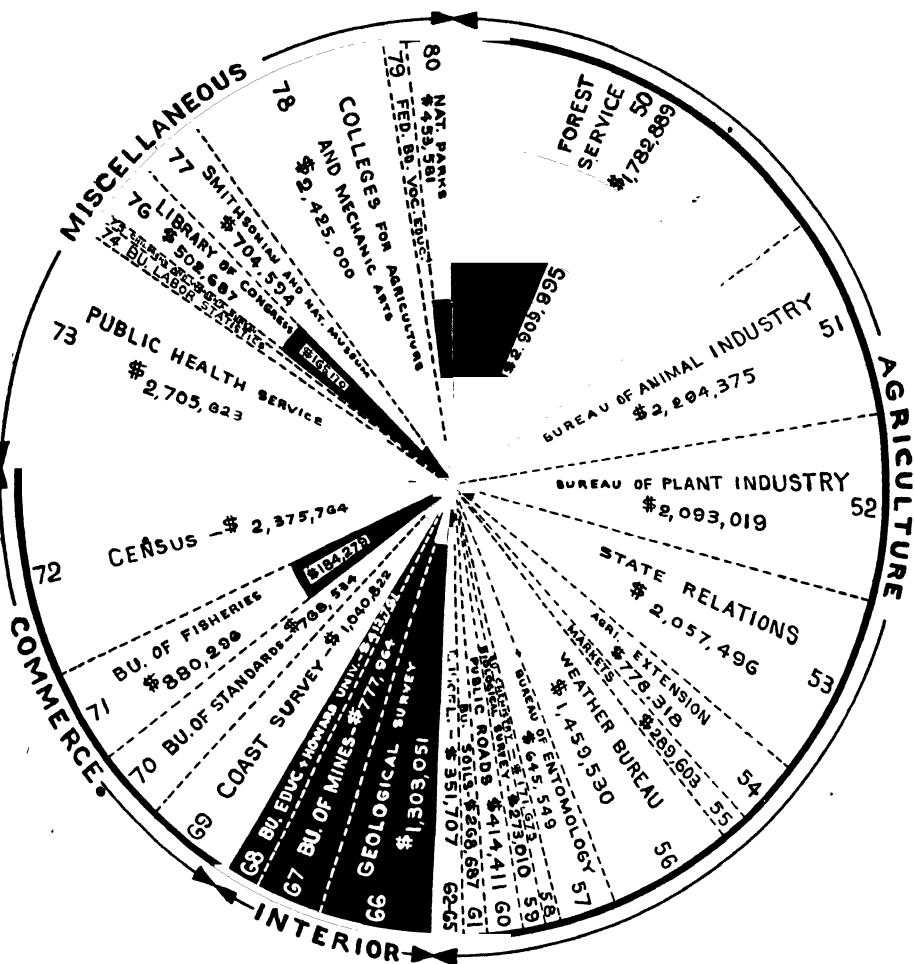
Group II: Research, Education and Development

The United States Government is carrying on a very considerable amount of scientific and engineering work through a large number of bureaus located in several different departments. The Agricultural Department is sometimes spoken of as the greatest scientific institution in the world. The Geological Survey, the Bureau of Mines, the Bureau of Standards and other bureaus are well and favorably known for their scientific and engineering work. The importance and economic value of such work is appreciated only by engineers and others who have been brought into intimate contact with such work. Our industries and our civilization are largely based on science and its manifold applications, realized in practice through the various branches of engineering. That

the government should foster science and engineering and coöperate with and develop the industries by means of scientific and engineering research is very generally admitted. The extent to which it should go, however, will of course depend upon the returns secured for such work, and whether it appears profitable and helpful and on the whole necessary. Figure 7 shows the average annual expenses and earnings (in black) of the various bureaus and other agencies included in group II.

The fifteen bureaus of the Agricultural Department constitute the first half of group II. This work is of fundamental importance not only to farmers and agricultural communities but to the entire population. An abundant supply of food is essential to the welfare and even existence of the nation, and as the urban population increases more rapidly than the rural, the food problem becomes more serious.

Agriculture is the most important industry of the nation. Agricultural and animal products amounted possibly to twenty-five billion dollars last year. Food has risen in price in recent years along with other products, partly because of higher wages and higher cost of machinery and supplies used by farmers, but largely because the urban population has increased faster than the rural and the demand for food products has increased faster than the supply. It is of prime importance to city dwellers that food products be produced in greater quantity, and this requires an increased efficiency or an increased rural population, or both. The Agricultural Department carries on a wide range of educational and experimental work in order to increase the production of farm products and to promote the interest of the farmer in his work, as well as to make life on the farm and in rural communities more attractive. This not only bene-



GROUP II - RESEARCH, EDUCATION AND DEVELOPMENT AVERAGE ANNUAL EXPENDITURES AND EARNINGS 1910 - 1919

[] TOTAL AREA OF SECTOR REPRESENTS GROSS DISBURSEMENT
 SHADED AREA REPRESENTS RECEIPTS
 UNSHADED AREA REPRESENTS NET EXPENDITURE

FIGURE 7

Fig. 7 shows the average gross disbursements, earnings, and net expenses for the activities included in group II for the ten-year period. The total area of each sector represents the gross disbursement, the black area represents earnings or receipts, while the white area represents net expenditure. The numbers assigned to each sector refer to the numbers given the corresponding sub-groups in the classification followed.

fits the farmer but tends to keep food prices within reason for city dwellers. It is therefore serving all the people, and its work was never so much needed as at the present time. It is spending in this work not over \$1.00 for every \$1,000 of value of agricultural and animal products, and without doubt the results achieved pay many times the cost. The work of the Forest Service, which is nearly self-supporting, is akin to that of the Public Works, and is described in connection with group III. The research work in agriculture is of great importance and absorbing interest.

The Geological Survey is one of the oldest of our scientific bureaus and has done notable work of the greatest scientific and economic value. It includes, besides structural and economic geology, topographic surveys and studies of water supply and water power. The Bureau of Mines is an outgrowth of the Geological Survey, and is concerned with all the problems of mining and quarrying and the handling and treatment of their products, and also many phases of the petroleum and natural-gas industry, and the use of fuels. These materials are fundamental to the industries, and work which helps the production of fuels and such important raw materials as metals and minerals is of prime importance.

These two bureaus are concerned with the mineral industries of the country: coal, iron, copper and the other industrial and precious metals, oil, gas and the water supply and the topography of the land. Our country is rich in these natural resources but we are spending them in prodigal fashion. It is the business of these two bureaus to survey and map the distribution of metals and minerals; to look for new sources of supply; to gather statistics and to increase safety and efficiency in the mining and metallurgi-

cal industries; and to consider what can be done to conserve these natural resources which, unlike the products of agriculture, are not reproduced in annual cycles, but when once used can never be replaced. The products of the mineral industries of the country amount possibly to six billions of dollars per year. They are indispensable to our manufacturers, and a most important part of our national wealth. If these two bureaus were to spend in this important work of research and development, an amount equal to one dollar in a thousand of the annual value of mineral products, it would amount possibly to six million dollars per year, which is more than double present expenditures.

Can there be any doubt that such a sum expended in the interest of the public that pays the entire cost, and must bear the burdens of any inefficiency that exists in the industries, would be amply repaid? For example, millions of dollars are worse than wasted every year in accidents that could be prevented. Mining is one of the most hazardous of industries. The Bureau of Mines has done a great deal of valuable work, both in research and education, to make mining safer; but there is need for a great deal more than it has been able to do. The results of such work are available in all the states where mining is carried on. It can generally be done better, and far more economically, than if done by the states unaided by the Federal Government. These two bureaus are doing a work of great economic importance at a cost to the people of this country of three cents per capita per year. If it were doubled, the burden would be only slightly increased, but the service rendered in the increased efficiency of production and fewer accidents and more intelligent use of our natural resources would be very considerable.

TABLE 4
AVERAGE ANNUAL NET EXPENDITURES—ALL CIVIL ACTIVITIES
FISCAL YEARS 1910-1919

	Net Amount	Per Cent of Total Civil
GROUP I—Primary Governmental Functions		
Legislative.....	\$14,117,445	6.7%
Executive.....	727,843	0.3
State.....	3,387,802	1.6
Treasury.....	33,763,532	16.0
Interior.....	13,193,388	6.8
Post Office.....	485,717	0.2
Agriculture.....	9,149,616	4.4
Commerce.....	6,852,318	3.2
Labor.....	465,244	0.2
Justice.....	1,686,598	0.8
Judicial.....	7,625,586	3.6
I. C. C.....	3,251,391	1.5
District of Columbia.....	3,917,128	1.9
Public Buildings—Maintenance.....	5,511,753	2.6
Miscellaneous.....	1,620,163	0.8
Total—Group I.....	\$105,755,525	50.1%
GROUP II—Research, Education, Development		
Agriculture.....	\$12,880,271	6.1%
Interior.....	2,493,777	1.2
Commerce.....	5,065,416	2.4
Public Health.....	2,705,623	1.3
Education, Welfare, etc.....	4,693,926	2.2
Total—Group II.....	\$27,838,313	13.2%
GROUP III—Public Works		
Rivers and Harbors Improvement.....	\$35,324,757	16.7%
Panama Canal Construction.....	21,444,123	10.1
Public Buildings—New Construction.....	13,519,749	6.4
Reclamation Service.....	3,849,610	1.8
Alaska R.R.....	3,108,163	1.5
Post Roads.....	497,049	0.2
Total—Group III.....	\$77,743,451	36.7%

This is a splendid example of the economic and social value of coöperation of all the people through the agency of the Federal Government in doing efficiently what is needed by all.

The Bureau of Education has done important and useful work, but has

never been developed on a scale commensurate with the importance of its field. It is believed by many that the Bureau of Education should take a leading part in studying the science of education, and coöperate effectively with the educational institutions of the

country in setting standards of education. It would not and could not dominate or control education, and there would be no danger of such a result. But it should be able to coöperate effectively and worthily, and to assist in raising educational standards where they are too low. The Federal Government is now assisting the states to the extent of a hundred million dollars a year in the building of highways. Why should it not assist in the supremely important work of education by taking a leading part in studying the problems of education?

Four bureaus of the Department of Commerce are included in group II. The Coast and Geodetic Survey is one of the oldest branches of the government doing scientific and technical work, and until the establishment of the Bureau of Standards, kept the standards and did the testing of weights and measures. It is charged with the survey of the coasts and rivers to the head of ship navigation, and the publication of charts, giving the results of base measurements, triangulation, topographic and hydrographic surveys, deep sea soundings and temperature, magnetic observations, gravity research, determination of heights, latitude, longitude, and reference points for state surveys. This work, which is very fundamental and important, and upon which all other surveys are based, has been done with a high order of precision and thoroughness, and with marked credit to the government.

The object of the Bureau of Fisheries is to develop the production and consumption of fish as an important source of food. To stimulate production, scientific research on the habits and propagation of fish is carried on. The breeding of fish and their distribution into lakes and streams is done on a large scale. In all of this work, but particularly in connection with the

propagation of fish and the protection of fish against extermination, the bureau coöperates with the various states. The responsibility of the government for work of this kind is obvious, and there can be no doubt as to its being profitable.

The Bureau of Standards maintains the fundamental standards of physical measurement. It coöperates with foreign governmental institutions in maintaining international uniformity in such measurements. It provides or calibrates copies of standards for states and manufacturers so as to insure uniformity in physical measurements. It develops instruments and methods to secure the highest possible accuracy in measurements and the greatest permanence and reliability in standards. It coöperates with engineering and trade organizations in standardization work, and carries out investigations on the properties of materials to secure data for such standardization. A very large amount of work is done for the Army and Navy and other branches of the Federal Government, for state commissions and officers of state and municipal governments, and the general public. It also carries out a large amount of scientific and industrial research to develop the industries of the country. Excluding food products, tobacco and liquors, the annual value of manufactured products in this country, over and above the value of the raw materials entering into them is possibly \$12,000,000,000. The Bureau of Standards spends this year a sum not more than ten cents per \$1,000 of manufactured products in all its work, and scarcely more than one-half of it is for the purpose of developing these manufactures. If this sum could be considerably increased, it would enable a much larger amount of work to be done and the work could be carried on more efficiently. If it were

multiplied by ten, it would be none too much, and would enable the government to do for the manufacturing industries something like what it is doing for agriculture. In view of the enormous importance of developing the manufacturing industries of the country, and also in view of the large amount of money collected from these industries in taxes, it seems reasonable to expect the government to allot a more generous sum to this work. One cent per year per capita of the country's population for this constructive and wealth-producing work is a very small amount for so important a work.

The Bureau of the Census does a large amount of statistical work in addition to taking the decennial census of the population, agriculture, manufactures, mines and quarries. It is charged with collecting statistics at specified intervals regarding dependent, defective and delinquent classes, wealth, taxation, state and municipal revenues and expenditures, and many other subjects. This work is of great importance and is properly included in the research and educational group.

The Bureau of Labor Statistics gathers the statistics of wages in the various industries and the cost of living, and publishes much valuable material of interest to labor and capital. The prosperity and happiness of all the people depend to a considerable extent upon industrial peace, and freedom from strikes and disorder. Industrial peace and contentment require justice and fair dealing between employers and employed. In order that both may know what is just and fair, statistical information as to wages and changes in prices and the cost of living is essential. It is probable that the greatest obstacle to a good understanding between employers and employed is lack of information. Sus-

picion and prejudice often give way to sympathy and understanding when full information, including information about what others are doing, is made available. The good results achieved by generous treatment of labor should be put before all employers, and if the government would spend more on research and education in this important field, might it not save much that is now spent in other directions? And might not the public be saved much both in expense and inconvenience that results from industrial warfare? This subject is of such tremendous and far-reaching importance that one is led to ask whether the government is doing as much as it should in this connection.

The work of the Children's Bureau and the Woman in Industry service is relatively new, but of great importance. In the interest of the state, apart from considerations of humanity, women and children should be protected in the industries; and the work of these two bureaus is therefore of fundamental importance. It seems likely that it will grow rapidly in magnitude and occupy a larger place in the public's thought.

The Library of Congress is a great national institution, corresponding to the British Museum and the *Bibliothèque Nationale*. It is properly grouped with the educational institutions of the government, and it is an institution of which all Americans are proud. It is a great library, housed in a beautiful building, useful to thousands, enjoyed by hundreds of thousands. The country approves a generous policy toward this activity of the government, devoted as it is to art and education.

The Smithsonian Institution and the National Museum are national institutions devoted to science, industry, art and natural history. The Smithsonian Institution has a private endowment,

but the greater portion of its funds comes from the government. It carries out scientific researches in the physical and natural sciences and has extremely valuable collections in its museums and art galleries. The government has not done as much in promoting art and collecting works of art as have many other governments, and it is to be hoped that much may be done in the future to compensate for past neglect in these matters.

The Public Health Service is one of the most important of the agencies doing work of research and education. It maintains supervision over incoming vessels to prevent the introduction of diseases; to prevent the spread of diseases between the states it makes inspections and coöperates with the state departments of health; statistics of diseases are collected and interpreted, and scientific research is carried out to develop methods of preventing the spread of disease.

The service has recently formulated a comprehensive health program to be carried out on a nation-wide scale by the active coöperation of federal, state, and local authorities and voluntary organizations. That these needs are urgent is shown by the fact that more than one-third of all men examined under the draft during the war were rejected for physical defects and diseases. The Surgeon General states that in large measure these defects and diseases could have been prevented had proper attention been given to them, especially in childhood. This unsatisfactory condition of the public health shows the need of greater attention on the part of the Federal Government, and more systematic coöperation between local and national agencies.

A large amount of most valuable medical, statistical, and research work is carried on by the Public Health

Service, which has been greatly developed in recent years. The opportunities presented in this work for growth and increased usefulness are almost boundless. In addition to its work in connection with the public health, a large amount of work is done in the care and rehabilitation of sick and wounded soldiers.

The foregoing brief outline of the activities of the various government agencies included in group II gives a very incomplete statement of the research and educational work done by the government. It is, however, intended to convey some idea of the wide range and important character of this work, and its great possibilities for development if more adequate provision could be made for its support.

The Great War was based very largely on science and engineering. During the twenty-five years preceding the outbreak of the war the enemy had developed science and the practical applications of science in a wonderful way. He had fostered the industries, developed shipping and foreign trade, and promoted scientific research and education until the German nation stood in the forefront of the nations of the earth. When the war began the Allied nations were unprepared, not only for lack of armies and munitions, but for lack of industrial equipment, transportation facilities and scientific development. Holding the enemy at bay under fearful odds while they built up their armies and their industries, the Allied and associated powers utilized all the resources of science and engineering and a vast amount of accumulated treasure to make good their initial deficiencies and gain strength enough to wear out and overcome the enemy.

In this titanic struggle, scientists, engineers and captains of industry were mobilized by the tens of thousands, and men and women in the in-

dustries by the tens of millions, in order that the soldiers and sailors in the armies and the fleets might be adequately supplied with food, munitions and equipment. The wonderful achievements of science under the pressure of necessity demonstrated the economic possibilities of scientific research. This demonstration was not altogether new, but the war brought it home more forcefully, and at its close one felt that never again would anybody question the importance and economic value of scientific investigation.

Almost before the war is over, however, and indeed before peace with the enemy is officially declared, we find some of the government's scientific work seriously handicapped for lack of funds, and a feeling by many people that under present circumstances such work must be severely curtailed for the sake of economy. It, therefore, seems timely to take this survey of the fields of the government's activities, which are included in group II, and to see how much (or how little relatively!) is expended for this work.

The average cost of all this work for the ten-year period, 1910-19 as shown in table 5, was *28 cents per year per capita of the country's population*, certainly a very small sum in proportion to the importance of the interests represented, and also in proportion to the aggregate of the federal taxes collected.

Group III: Public Works, New Construction

The Panama Canal was opened to navigation in 1914. Its total cost for construction and equipment to date is \$367,000,000. During the past six years its revenues have amounted to about \$34,000,000 and its expenditures for operation and maintenance to \$36,000,000, a net deficit of \$2,000,000 for the entire period. Had it not been

for the slides in 1916, which closed the canal for seven months and greatly reduced the revenue that year, there would have been a surplus of \$2,000,000 for the entire period instead of a deficit. The surplus in the fiscal year 1920, amounted to more than \$2,000,000, and this should increase year by year. More than \$210,000,000 out of the total cost of \$367,000,000 was provided out of current revenues of the government from 1910 to 1915, and hence was included in the \$2.14 per capita of civil governmental cost during these years. This is one of the engineering triumphs of the present century, and is another illustration of the successful handling of large public undertakings by the people co-operatively, that is, by the government.

Another large undertaking of an engineering character is the river and harbor improvements, carried out by the engineers of the army but charged in this study to Public Works. During the ten years, 1910 to 1919, inclusive, more than \$350,000,000 was expended in this very important work. From Hell Gate to the Golden Gate, and from Duluth to the delta of the Mississippi, this work has been carried on for many years and is of great aggregate importance.

A third important item in this group is the construction of new public buildings, and during the ten-year period in question \$135,197,494 was expended in the construction of post offices, custom houses, hospitals and other government buildings, about one hundred twenty new buildings per year being erected. The work is done by the office of the supervising architect of the Treasury Department, which for many years has handled this work. This also comes within the total of \$2.14 per capita of civil governmental cost, about 79 cents of which was expended in the public-works group.

TABLE 5
NET CIVIL EXPENSES OF U. S. GOVERNMENT
FISCAL YEARS 1910-1919

Fiscal Year Ending June 30	GROUP I Primary Governmental Functions		GROUP II Research Education Development		GROUP III Public Works		TOTAL CIVIL I, II, and III	
	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita
1910.....	\$102,227,955	\$1.11	\$25,394,032	\$0.28	\$79,503,701	\$0.86	\$207,125,688	\$2.24
1911.....	83,682,691	0.89	27,355,497	0.29	85,562,800	0.91	196,640,988	2.10
1912.....	92,376,833	0.97	22,291,438	0.23	87,885,582	0.92	202,511,853	2.13
1913.....	92,858,188	0.96	21,611,973	0.22	95,568,921	0.99	210,039,082	2.18
1914.....	91,313,408	0.93	22,874,599	0.23	95,974,381	0.98	210,162,388	2.15
1915.....	106,826,332	1.08	30,000,474	0.30	94,401,736	0.95	231,288,542	2.33
1916.....	114,742,625	1.14	27,719,284	0.28	58,965,247	0.59	201,427,156	2.00
1917.....	108,676,368	1.06	28,424,546	0.28	62,759,736	0.61	199,860,650	1.96
1918.....	125,204,304	1.21	34,773,718	0.34	62,480,263	0.60	222,458,285	2.15
1919.....	139,616,546	1.33	37,879,567	0.36	54,332,139	0.52	231,858,252	2.21
Aggregate Cost.....	\$1,057,555,251	\$10.72	\$278,333,127	\$2.82	\$777,434,506	\$7.88	\$2,113,372,884	\$21.43
Average.....	105,755,525	1.07	27,838,313	0.28	77,743,451	0.79	211,337,288	2.14

In addition to the construction of new buildings the supervising architect's office has charge of the operation and maintenance of 1300 public buildings in all parts of the country.

The fourth item in this group is the construction of rural post roads, by coöperation with state highway departments. This work has been greatly expanded recently. During the ten years, 1910 to 1919, inclusive, \$4,970,489 was expended in the aggregate. But the appropriation for 1920 was \$99,000,000, and for 1921, \$104,000,000. This is more than the annual expenditure previous to 1920 for the entire range of engineering work included in group III. The importance of good roads to the proper development of the country is now well understood, and there can be no doubt that the coöperation of the Federal Government will be to the advantage of the people as a whole. The building of roads is an engineering matter in which technical information and experience are of very great importance. The aid of the Federal Government not only stimulates and aids the states, which must pay at least half the cost, but tends to secure the best engineering service and to standardize road construction. It can not fail to have a great educational influence upon engineers and road builders throughout the country, and to give the users of roads better roads and the taxpayers more for their money than if it is left to individual states.

Moreover, in planning and building national highways it is very advantageous to have the Federal Government an active participant, in order to secure a better coördination of effort. As a measure of military precaution and preparedness the realization of a system of good roads on a national scale is of enormous advantage. As a help in getting food to market and supplies to farmers, it is of enormous economic

value. As supplementing and in some cases supplanting railroads, such a system of highways is of great significance.

The fifth item is the Alaskan Railway, from Seward to Fairbanks. During the years 1913 to 1919, inclusive, \$31,081,628 was expended on this important railway, which, when completed, will be 540 miles long. As with the Panama Canal, this is not an undertaking which private capital would care to undertake. But its ultimate success and its value in the development of Alaska can hardly be doubted.

The sixth item is the Reclamation Service, one of the most profitable and most interesting of the engineering projects of the government. To reclaim the deserts and to create farms and homes and villages where before was waste and desolation is an inspiring undertaking; and to be able to create wealth far in excess of the cost of the work furnishes a double incentive. Since 1902 the Reclamation Service has constructed irrigation systems to supply 1,780,000 acres of land with water, and storage reservoirs sufficient to supply an additional million of acres. On this reclaimed land 40,000 families are living, and the population of the towns and villages within these projects had increased by as many more. It is estimated that the increased value of the land due to the work of the Reclamation Service is \$200 per acre, or a total of more than \$350,000,000. The annual value of the crops raised on these lands is estimated at \$90,000,000. Most of the money expended on this work is derived from the sale of public lands and the money collected from settlers for the improvements made and the water service rendered.

The Forest Service is akin to the Reclamation Service in that it is

TABLE 6

NET EXPENDITURES—GROUP I—PRIMARY GOVERNMENTAL FUNCTIONS
FISCAL YEARS 1910-1919

Year Ending June 30	Legislative	Executive	State	Treasury	Interior
1910.....	\$13,812,900	\$520,208	\$2,283,201	\$29,880,569	\$16,606,130
1911.....	13,172,117	734,459	2,656,010	27,336,313	9,085,520
1912.....	12,308,400	923,979	2,506,497	28,699,035	11,880,930
1913.....	14,054,658	591,646	2,076,326	29,064,241	11,123,752
1914.....	13,242,248	463,992	2,662,757	30,332,558	12,753,558
1915.....	14,352,302	568,219	2,684,166	31,667,486	18,189,902
1916.....	13,533,403	564,847	3,433,545	30,784,137	12,402,249
1917.....	14,395,362	675,311	3,648,075	33,383,592	13,289,624
1918.....	15,817,749	910,919	4,677,254	40,186,382	15,968,165
1919.....	16,485,912	1,224,852	7,250,190	56,301,012	15,735,253
Average, 1910-1919.....	\$14,117,445	\$727,843	\$3,387,802	\$33,763,532	\$13,193,388
1910.....	\$10,117,907	\$5,083,026	\$8,862,150	-\$1,190,581*	\$1,010,038
1911.....	1,812,594	4,497,688	5,978,456	-768,822*	1,272,444
1912.....	3,461,932	7,878,024	5,822,178	-100,398*	1,386,947
1913.....	3,196,710	8,678,942	6,416,086	-2,043,487*	1,518,361
1914.....	-1,563,798*	9,153,014	6,249,043	-2,109,283*	1,586,215
1915.....	5,031,466	9,857,383	6,771,915	1,587,645	1,536,760
1916.....	7,270,710	10,735,784	6,877,075	1,884,896	1,508,102
1917.....	-3,279,332*	11,371,938	7,928,009	2,066,226	1,545,397
1918.....	-5,402,286*	11,789,604	7,504,245	2,834,796	2,321,566
1919.....	-15,788,032*	12,450,760	8,814,021	2,491,447	3,180,150
Average, 1910-1919.....	\$485,717	\$9,149,616	\$6,852,318	\$465,244	\$1,686,598
	Judicial	I. C. C.	District of Columbia	Public Buildings Maintenance	Miscellaneous
1910.....	\$7,596,825	\$1,152,344	\$4,151,543	\$4,129,320	\$212,375
1911.....	7,087,143	1,315,920	4,656,414	4,707,852	188,583
1912.....	6,713,079	1,383,881	4,315,075	4,976,757	221,818
1913.....	7,515,440	1,639,654	3,723,599	4,918,699	383,561
1914.....	7,243,033	2,005,303	3,753,681	4,975,798	465,290
1915.....	7,785,778	3,781,380	3,430,189	5,548,826	-916,485*
1916.....	7,931,343	5,006,593	3,457,112	5,863,026	3,489,803
1917.....	7,890,437	5,166,003	3,632,769	6,049,376	1,618,582
1918.....	7,969,996	5,389,981	3,445,583	6,671,633	5,118,718
1919.....	8,522,787	5,672,856	4,605,316	7,276,239	5,424,383
Average, 1910-1919.....	\$7,625,586	\$3,251,391	\$3,917,128	\$5,511,753	\$1,620,163

STATEMENT REGARDING U. S. EXPENSE FOR DISTRICT OF COLUMBIA

The Federal Government's share of expenses of the District of Columbia is always less than half of the total because the operating expenses of the water department and a certain number of minor activities are borne by the District alone. However, to the average annual net expenditure of \$3,917,128 for the District of Columbia shown in the charts and the tables, there must be added \$2,120,375 as the average annual expenditure on behalf of the District by the Federal Government which has been charged by the Treasury to the War Department, the Department of the Interior, and certain bureaus of other departments. This makes a total net expenditure for the District of \$6,037,503 per year average for the ten-year period, as against an average of \$9,500,243 paid by the District, or 39 per cent of the total.

* Surplus.

developing the public domain. It has been included in group II, but may be mentioned in this connection. The national forests are located in 29 states in all parts of the country, although the larger portion is in the Far West. There are 152 different forest tracts, with a total area of 156,000,000 acres. The Forest Service has the responsibility of protecting and managing these vast tracts of land; studying how to

Laboratory of the Forest Service has done a great deal of valuable scientific and engineering work on a wide range of subjects. In planning its work and in developing the forests the Forest Service takes a long look ahead.

Obviously, no commercial company could undertake such a work. The question of early dividends is not paramount with the government. We have drawn lavishly, even recklessly

TABLE 7
NET EXPENDITURES, GROUP II—RESEARCH, EDUCATION, DEVELOPMENT
FISCAL YEARS 1910–1919

Year Ending June 30	Agriculture	Interior	Commerce	Public Health	Education Welfare, etc.
1910.....	\$9,750,531	\$1,574,790	\$8,450,503	\$2,021,199	\$3,597,009
1911.....	11,112,882	2,036,544	8,394,968	1,927,813	3,923,291
1912.....	9,396,796	2,109,032	4,263,804	2,077,536	4,402,269
1913.....	9,282,029	2,192,927	4,222,149	1,993,879	3,921,688
1914.....	10,507,954	2,381,916	3,714,348	2,097,577	4,172,804
1915.....	16,386,062	2,484,931	4,295,765	2,519,871	4,373,845
1916.....	14,265,752	2,417,311	4,139,785	2,589,210	4,307,226
1917.....	14,425,464	2,529,453	4,014,684	2,768,880	4,686,064
1918.....	17,114,309	3,204,093	4,711,100	3,121,402	6,622,814
1919.....	16,560,926	4,007,472	4,447,053	5,988,864	6,925,252
Average.....	\$12,880,271	\$2,493,777	\$5,065,416	\$2,705,623	\$4,693,226

develop the land best and make its resources most useful to the public. It yields a large revenue each year from timber cut (last year 800,000,000 board feet), and affords on its grazing ranges pasturage for 15,000,000 head of sheep, cattle, horses, goats, and swine. Watching the forests for the outbreak of fire, and fighting fires when they gain headway, is one of the important duties of the Forest Service. Another duty is applying scientific forestry to the development of the forests. Still another is studying the properties of woods and methods of treating and using woods. The Forest Products

in some cases, upon our natural resources, and it is well that we should be taking some thought for the future, and should be able to hand down to the next generation our public forest areas in better, rather than worse, condition than they are at present. The annual earnings of the Forest Service go a long way usually in paying expenses, and it is believed that in a few years they will pay the entire cost of the work, in addition to adding year by year to the value of the national forests.

The Federal Power Commission is another agency recently established to

do engineering work akin to the Reclamation Service and Forest Service in that it is developing the natural resources of the country and indirectly creating wealth. It is different, however, in this important respect, that instead of carrying out engineering work itself, it has general supervision of power sites and their development and will grant permits to private agencies to carry out such work and supervise the carrying out of the work so that it shall not be inconsistent with the public interest. The power problem is a very fundamental one, and the recent unfortunate experience of

the industries and public utilities which depend upon coal emphasizes the need for the government to do what it can to make the water powers of the country available to the industries. It is to be hoped that the Federal Power Commission will be given such means to work with, that it will be enabled to attack the problems before it effectively and successfully.

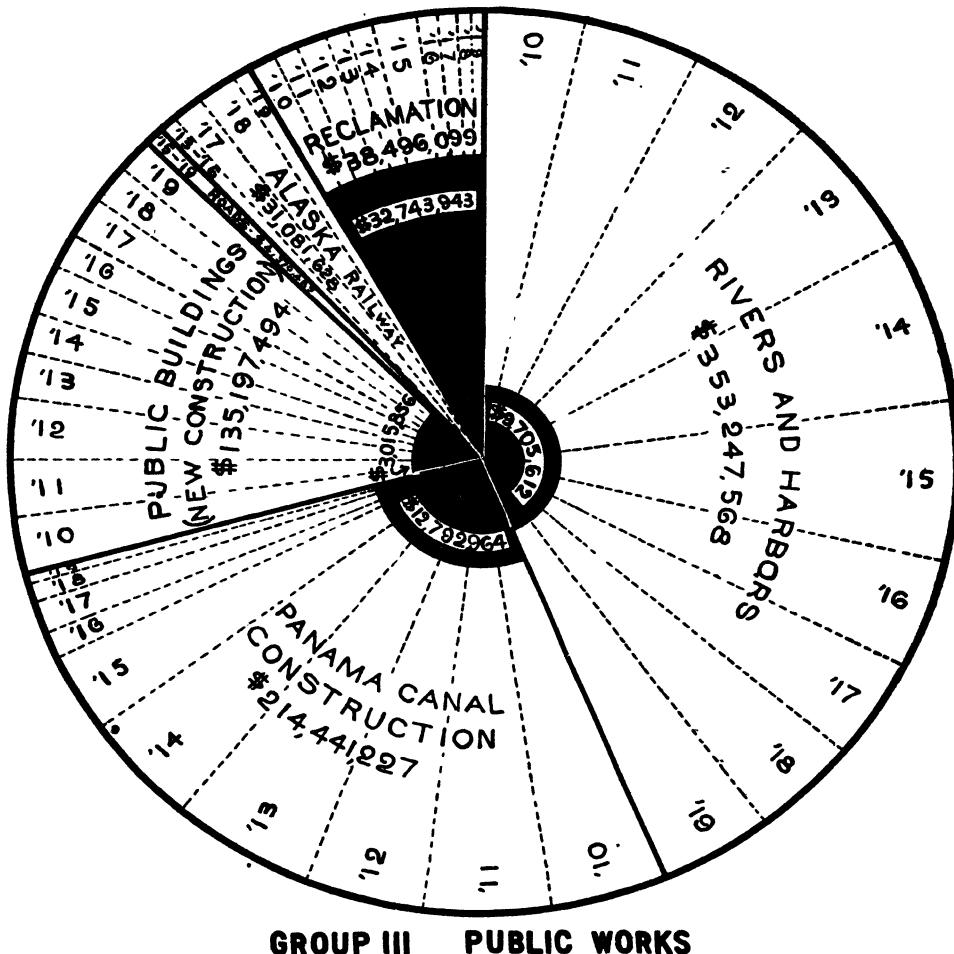
All these important constructive activities of the government (except the Forest Service as shown in Fig. 8) were carried on for the ten-year period at a total cost of \$777,434,500 and *an annual cost of about 79 cents per capita*

TABLE 8
GROSS AND NET EXPENDITURES—GROUP III—PUBLIC WORKS
FISCAL YEARS 1910–1919

Year Ending June 30	Rivers and Harbors Im- provements	Panama Canal Con- struction	Public Buildings Construction	Reclama- tion Service	Alaska Railway	Rural Post Roads
1910.....	\$29,026,114	\$33,911,673	\$18,404,109	\$7,888,604	.....	.....
1911.....	33,640,353	37,032,907	16,287,536	7,314,300	.....	.....
1912.....	35,646,618	34,291,280	18,034,385	9,194,067	.....	.....
1913.....	42,274,840	40,684,496	14,021,781	6,646,252	\$16,625	.....
1914.....	49,921,592	31,950,041	11,277,797	7,709,351	116,801	.....
1915.....	46,833,914	23,687,437	14,632,086	12,091,686	572,786	\$265,327
1916.....	32,450,301	8,103,039	11,048,164	5,891,615	4,148,791	.....
1917.....	30,487,560	9,184,867	12,116,721	4,993,732	9,407,845	34,994
1918.....	29,593,582	6,704,127	12,206,527	5,205,480	11,535,605	843,474
1919.....	33,078,306	1,684,324	10,184,243	4,304,956	5,284,698	3,826,694
Total Gross Cost.....	\$362,953,180	\$227,934,191	\$138,213,349	\$71,240,042	\$31,083,151	\$4,970,489
Earnings and Receipts.....	9,705,612	12,792,964	3,015,856	32,743,943	1,523	.....
Net Cost.....	\$353,247,568	\$214,441,227	\$135,197,493	\$38,496,099	\$31,081,628	\$4,970,489

STATEMENT REGARDING U. S. EXPENSE FOR RECLAMATION SERVICE

In the expenditures and credits of the Reclamation Service as shown in the charts and tables some items do not appear because of certain bookkeeping procedure which the law requires the Treasury to follow in this instance. Thus the total amount actually disbursed in 1910–19 is \$97,583,587. This is \$26,343,545 in excess of the amount shown in table 8, this difference representing the collections during this period from water rights charges on completed projects which by act of Congress the Reclamation Service is permitted to reinvest in new projects. In addition to a loan of \$20,000,000 advanced by the Treasury in 1910, the actual credits to the service in the ten-year period amounted to \$74,127,630. The excess of this amount over that shown in the charts and tables consists of \$14,460,581 from Land Office fees and commissions (credited in this study to the Land Service), and \$26,023,106 from water right charges and other collections from completed projects. The entire Reclamation investment since the beginning in 1901 amounted at the end of June, 1919, to \$144,820,091. Of this sum all but the \$20,000,000 loan has been defrayed by the proceeds of the sale of public lands by the Land Office, together with fees and commissions, and the collections by the Reclamation Service from completed reclamation projects.



TOTAL AREA OF SECTOR REPRESENTS GROSS DISBURSEMENT
 SHADeD AREA REPRESENTS RECEIPTS
 UNSHADeD AREA REPRESENTS NET EXPENDITURE

FIGURE 8

In Fig. 8 the total area of each sector represents gross disbursements, the black area represents receipts and the white area represents net expenditure.

The amounts shown in each sector represent the aggregate expenditure in the ten-year period for each item. The annual expenditures for each year are also indicated except in the case of Rural Post and Forest Roads which was too small to be subdivided.

The receipts represent the proceeds of the sale of government property, but in the case of the Reclamation Service these receipts consist almost entirely of the proceeds from the sale of public lands. Additional receipts from reclamation projects are not shown in the chart. Practically the whole cost of this work is reimbursable, being assessed against the owners of the property benefited, and payable in twenty annual installments. The annual value of the crops raised on the reclaimed land is estimated at \$90,000,000.

The cost of maintenance and operation of the Panama Canal and the tolls from its operation are included in Group I.

of the country's population. That so much could be done at so slight a burden to each is of course because it is shared by so many. And this is the principal argument in much that the Federal Government does, particularly in research and development work. To do it well once and place the results at the disposal of all is far cheaper as well as better than for separate agencies to do it separately or to try to do it together without the means for securing effective coöperation.

Groups IV, V and VI: Army and Navy, Pensions and Special War Activities

The importance and necessity of the military departments of the government need no emphasis here. That the Army and Navy should be well supported and developed up to a high degree of efficiency is generally conceded. As to how large they should be and how much they should cost, there are many opinions. No opinion is here expressed on these questions. The

TABLE 9
AVERAGE ANNUAL EXPENDITURES AND CREDITS OF WAR DEPARTMENT
FISCAL YEARS 1910-1920
For 7 Pre-war Years, 3 War Years, and 1920

	Average 1910-1916	Average 1917-1919	1920
<i>Expenditures</i>			
Salaries and Expenses.....	\$1,860,263	\$13,121,209	\$8,004,775
Quartermaster Corps.....	93,197,893	3,059,410,621	675,648,807
Medical Department.....	1,087,105	101,478,026	9,330,216
Signal Service.....	691,344	319,173,352	-16,320,858*
Ordnance Department.....	7,074,443	1,360,124,443	286,509,318
Engineer Department.....	3,583,375	209,202,649	43,304,346
Military Academy.....	1,324,180	1,580,042	1,971,370
National Guard.....	6,478,014	15,547,460	1,675,919
War Miscellaneous—Military.....	179,764	18,659,254	21,672,537
National Homes.....	5,021,028	4,983,084	6,091,466
National Cemeteries and Monuments.....	437,804	1,597,945	2,923,879
War Claims and Relief Acts.....	1,001,544	647,479	987,535
War Miscellaneous—Civil.....	1,281,573	1,372,697	2,020,520
Trust Funds.....	2,455,261	1,239,696	5,789,854
Total Expenditures.....	\$125,673,591	\$5,108,137,957	\$1,049,609,684
<i>Credits</i>			
Quartermaster Corps.....	\$296,542	\$18,729,357	\$306,674,668
Signal Service.....	187,402	296,316	309,114
Ordnance Department.....	119,837	1,878,950	5,913,490
Miscellaneous.....	116,378	1,400,934	6,250,823
Trust Funds.....	2,395,599	1,633,240	2,044,736
Total Credits.....	\$8,115,758	\$23,938,797	\$321,192,831
Total Net Expenditures.....	\$122,557,833	\$5,084,199,160	\$728,416,853

* Surplus.

purpose of this paper is to present facts fairly and in such a way as to facilitate study and discussion, and to urge the importance of proper support for all the activities of our national government, in order that they may be adequate, efficient and creditable.

Table 9 gives the expenditures of the War Department of the eleven-year period, 1910-20, itemized by departments substantially as in the report of the Treasury. Table 10 gives similar data for the Navy Department.

Group V covers pensions and care of soldiers. It includes in item 91 pen-

sions and the cost of operating the Pension Office; in item 92 the insurance of soldiers and sailors during the recent war and subsequently, through the Bureau of War Risk Insurance; in item 93 the rehabilitation of soldiers by the Federal Board of Vocational Rehabilitation; and in item 94 the care of soldiers and sailors by the Public Health Service.

Group VI, covering obligations arising from the war, occurs only in the years 1917 and following. Item 95 is the Railroad Administration, and the expenditures under this head were for

TABLE 10
AVERAGE ANNUAL EXPENDITURES AND CREDITS OF NAVY DEPARTMENT
FISCAL YEARS 1910-1920
For 7 Pre-war Years, 3 War Years, and 1920

	Average 1910-1916	Average 1917-1919	1920
<i>Expenditures</i>			
Salaries and Expenses.....	\$838,470	\$4,196,547	\$2,797,152
Pay, etc. of Navy.....	38,318,099	150,708,649	189,566,231
Increase of Navy (including Aviation).....	31,321,519	384,105,656	282,287,769
Bureau of Yards and Docks.....	6,717,012	54,048,514	46,134,106
Bureau of Navigation.....	3,748,152	15,185,100	18,728,060
Naval Academy.....	632,910	2,527,158	2,275,826
Bureau of Construction and Repair.....	8,603,583	46,078,734	16,558,456
Bureau of Ordnance.....	12,252,712	143,960,024	81,743,883
Bureau of Steam Engineering.....	9,575,799	38,648,068	24,811,485
Bureau of Supplies and Accounts.....	13,426,889	109,618,667	43,640,360
Bureau of Medicine and Surgery.....	1,079,680	8,074,474	9,981,760
Marine Corps.....	7,373,914	44,051,947	42,157,757
Miscellaneous.....	1,980,678	255,261,491	-135,049,634*
Trust Funds.....	463,847	9,475,392	7,057,057
Total Expenditures (annual average).....	\$136,333,264	\$1,215,890,421	\$632,690,268
<i>Credits</i>			
Sale of Property.....	\$2,125,142	\$611,825	\$15,430,646
Navy Fines.....	610,063	643,950	635,301
Naval Hospital.....	448,508	224,802	301,364
Navy Miscellaneous.....	272,862	738,959	1,602,128
Trust Funds.....	487,936	293,201	142,199
Total Credits.....	\$3,944,511	\$2,512,737	\$18,111,638
Total Net Expenditures (annual average).....	\$132,388,753	\$1,213,377,684	\$614,578,630

* Surplus.

advances to the railroads and compensation for deficits of net earnings below the guaranteed return during the period of federal operation and the six months guarantee period thereafter.

Item 96 is the Shipping Board which has constructed a fleet of ships and is now operating many of them. Item 97 is the Food and Fuel Administrations, beginning in 1918. Item 98 includes the Bureau of Industrial Housing and Transportation, the Council of National Defense, the Inter-departmental Social Hygiene Board and the National Advisory Committee on Aeronautics. Item 99, special activities, includes the special funds placed in the hands of the President, under the heading National Security and Defense, and disbursed by various civil and military agencies, and also the special cost of handling liberty loan campaigns and other special war activities, and the purchase of the Danish West Indies. Of the five and a quarter billions of dollars disbursed in the four years 1917 to 1920, in the activities of group VI, \$3,217,239,000 of it was expended by the Shipping Board, and a part of this is represented by the value of the ships now owned by the board. The Railroad Administration has had \$1,534,975,000 as advances and payments to cover guaranteed net earnings for the railways. Items 97, 98 and 99, including the Food and Fuel Administrations and all the war boards and special war activities represent less than ten per cent of the total for the four years, namely \$498,245,958, of which nearly \$100,000,000 was for European food relief in 1920.

Groups VII, VIII and IX: Interest, Public Debt, Loans and Trust Funds, and Revenues

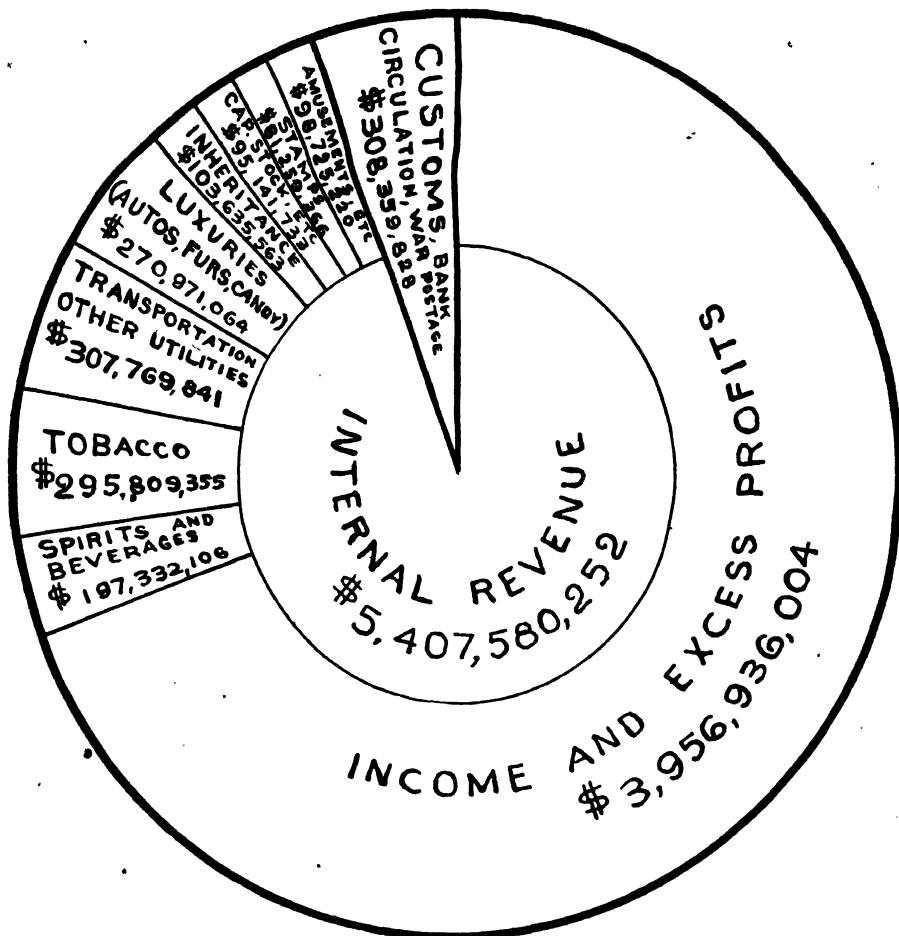
These groups represent fiscal operations and revenues, all handled by the

Treasury. The first group includes interest, which is an item of current expense. Item 100 gives interest on the public debt, and item 101 includes all other interest transactions, such as interest paid on trust funds (*Indian moneys and other funds held by the government in trust and drawing interest*) and interest received on loans. The latter includes loans to farmers, banks, railroads, and European governments.

Group VIII includes transactions (not including interest) as to public debt, loans and trust funds. Seigniorage is included here also, as it is virtually a loan (without interest) when it is credited, and the liquidation of that loan when it is debited. There are some exceptions, but this would be the rule and it seemed proper to include it in this group.

Group IX includes the revenues from direct and indirect taxation. It has already been explained that the four items 107 to 110 represent all sources of revenue other than earnings from fees, fines, sale of property, interest, etc., which are credited to the proper departments or accounts, as offsets to expenses or interest paid out. Rebates for overpayments or deposits on customs or internal revenue collections are deducted from the total so that the sums given are the net revenues.

In the Treasury accounts as shown in the Combined Statement, rebates are charged with other disbursements, and the gross revenues from customs and internal revenue taxes are given without deduction for rebates. The revenues from various sources for 1920 are plotted in Figure 9. The figures are as reported by the Bureau of Internal Revenue, and are not in exact agreement with the figures given in table 1, which are taken from the Treasury records. The disagreement

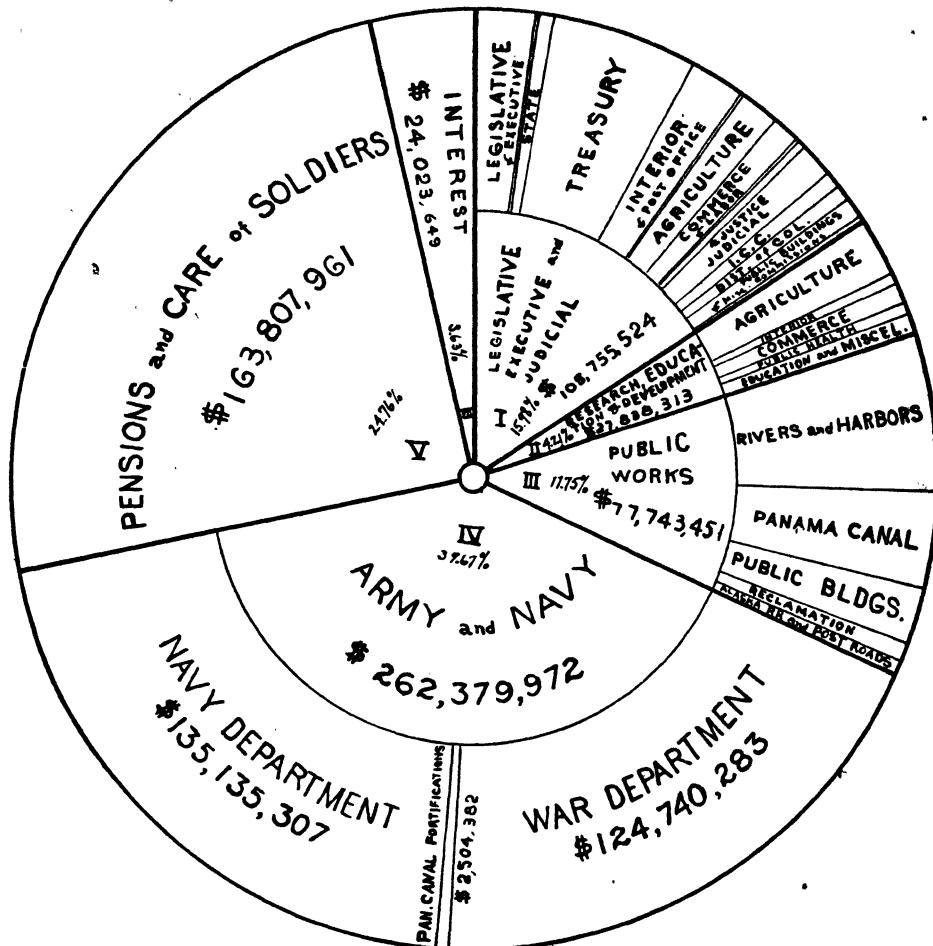


ANALYSIS OF U.S. TAX REVENUE-1920 TOTAL — \$5,715,940,080

(AS REPORTED BY DIVISION OF INTERNAL REVENUE)

FIGURE 9

Fig. 9 shows the distribution by source of U. S. tax revenue for the fiscal year 1920. It represents the 1920 column of table 11. The amount given for Internal Revenue is over \$28,000,000, about half of one per cent, higher than the corresponding item in table 1, line 2. The discrepancy is due to the fact that the items reported by the Division of Internal Revenue include sums that are deducted as refunds and rebates but which are paid out of a separate fund in the Treasury, and also sums that are collected but not deposited in the Treasury just before the close of the fiscal year.



1910-1919 AVERAGE
NET EXPENDITURE OF FEDERAL GOVERNMENT
AVERAGE YEARLY TOTAL - \$ 661,548,870
AVERAGE YEARLY CIVIL - \$ 211,337,288
(EXCLUSIVE OF WAR COST)

FIGURE 10

Fig. 10 shows the average cost of the Federal Government for the ten fiscal years 1910-19, excluding the cost of the war. This is the amount payable from taxation, after deducting from every department the credits due to fees, fines or other earnings, as well as receipts from government property sold. The army and navy expenses for 1917-1919 are estimated on the pre-war basis, and the same is done for pensions and interest. The ten-year average for Group I is about the same as for 1915; for Group II it is less than for 1915, and for Group III it is less than for any year prior to 1915. The average total expense for this ten-year period (exclusive of war expenditures) was \$661,548,871; the highest year was 1919 and the lowest 1911. On the basis of per capita cost, however, the highest year was 1910; and the lowest was 1917.

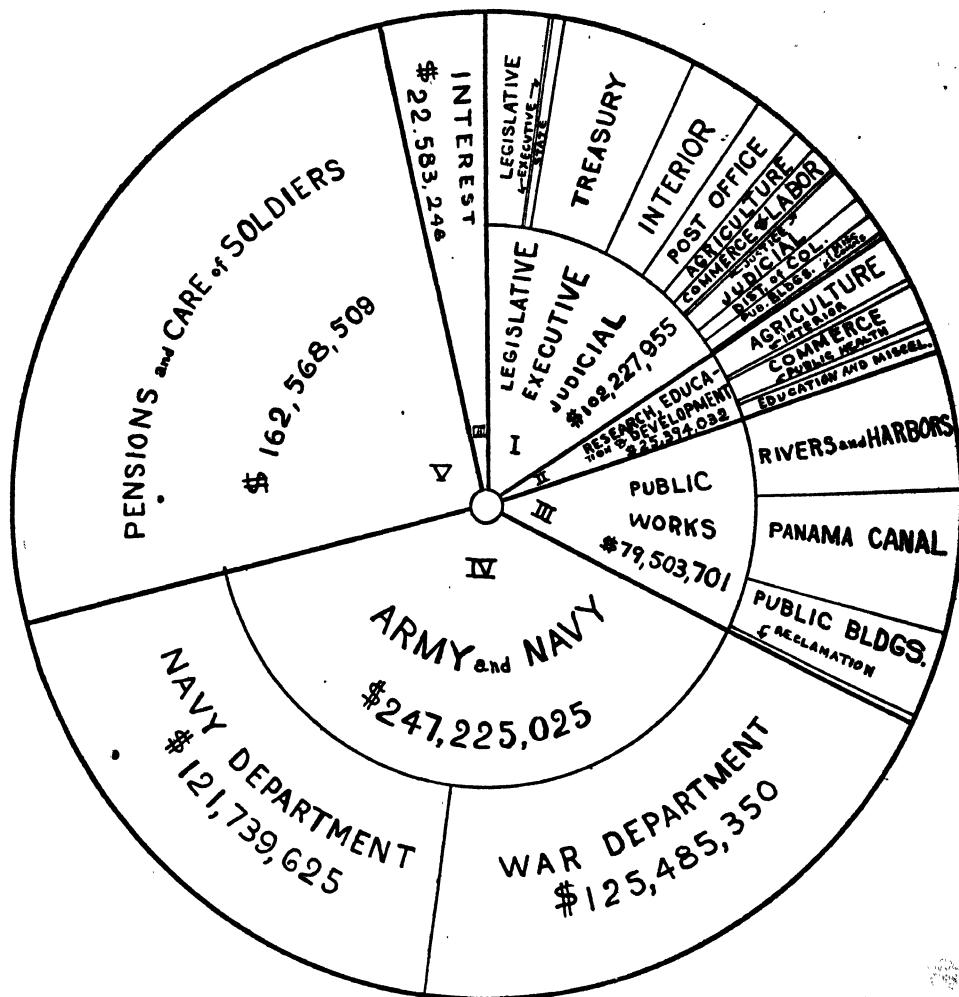
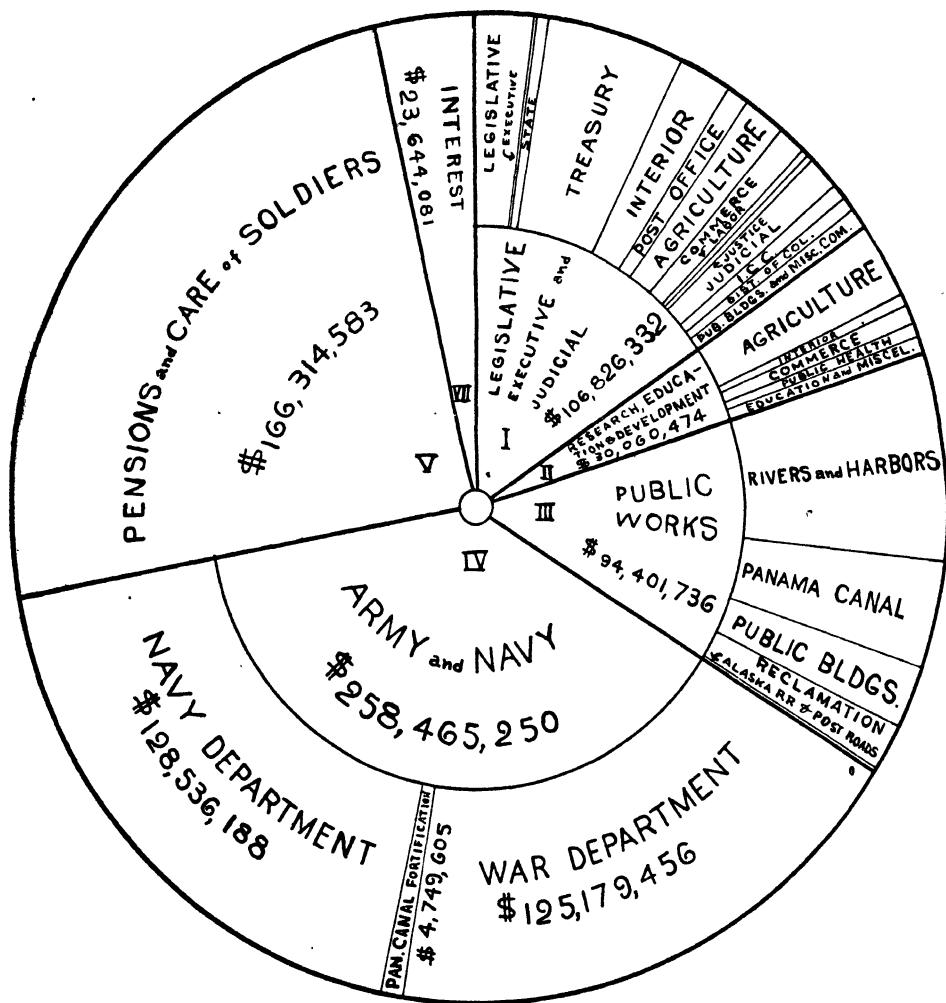


FIGURE 11

The net expenses of the Federal Government in 1910 were \$639,502,470. This is the amount payable from taxation, after deducting from every department the credits due to fees, fines or other earnings as well as receipts from government property sold. A little less than one-third the total is for all the civil activities, and the remainder is for army and navy, pensions and interest. The total expense divided by the population of the country for that year gives \$6.93 as the annual per capita cost of the Federal Government in 1910 of which \$2.24 represented the cost of all the civil activities.



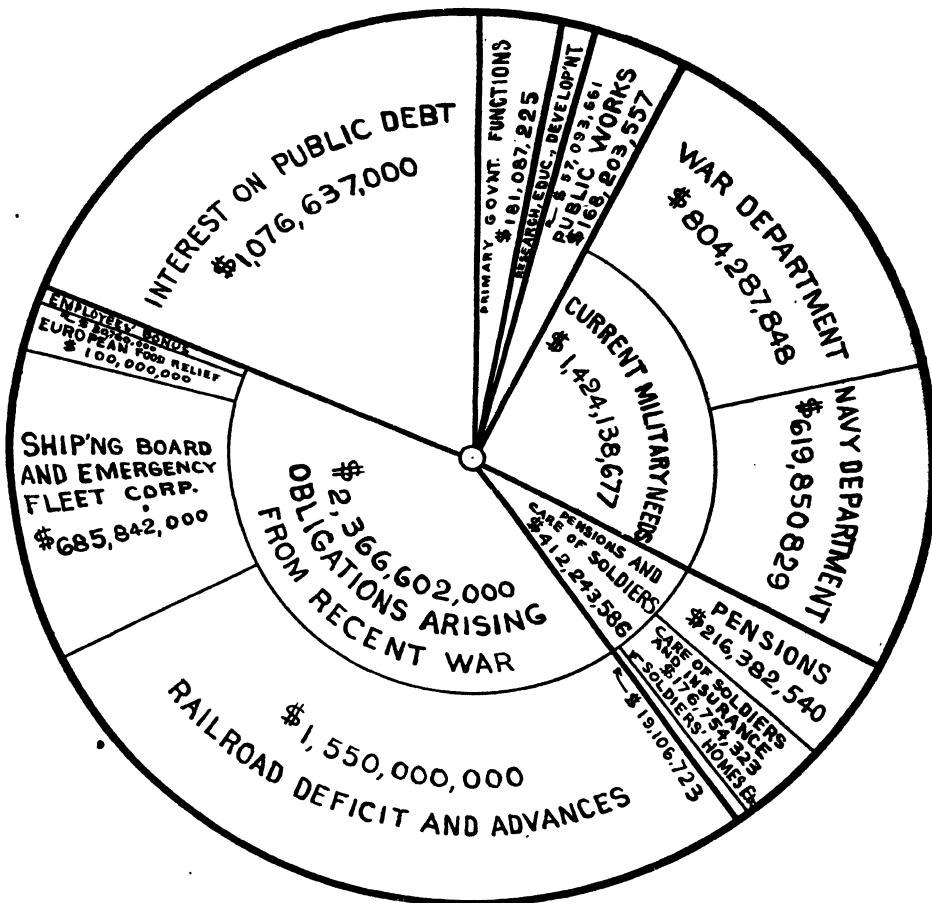
1915

NET EXPENDITURE OF FEDERAL GOVERNMENT

TOTAL \$679,712,456
 CIVIL \$231,288,542

FIGURE 12

Fig. 12 shows the distribution of net expenses for 1915, the total being 40 millions more than in 1910. Rivers and Harbors had an unusually large sum in 1915, \$16,666,486 more than in 1910, Agriculture \$11,409,889 more, the Treasury \$1,786,917 more, Navy and Panama Canal fortifications combined 11 millions more. Owing to the increase of $7\frac{1}{2}\%$ in the population in the five years between 1910 and 1915, the per capita cost of the government was less in 1915 than in 1910, namely \$6.84 as against



DISTRIBUTION OF GOVERNMENT APPROPRIATIONS
FOR FISCAL YEAR 1920
TOTAL—\$ 5,686,005,706

FIGURE 13

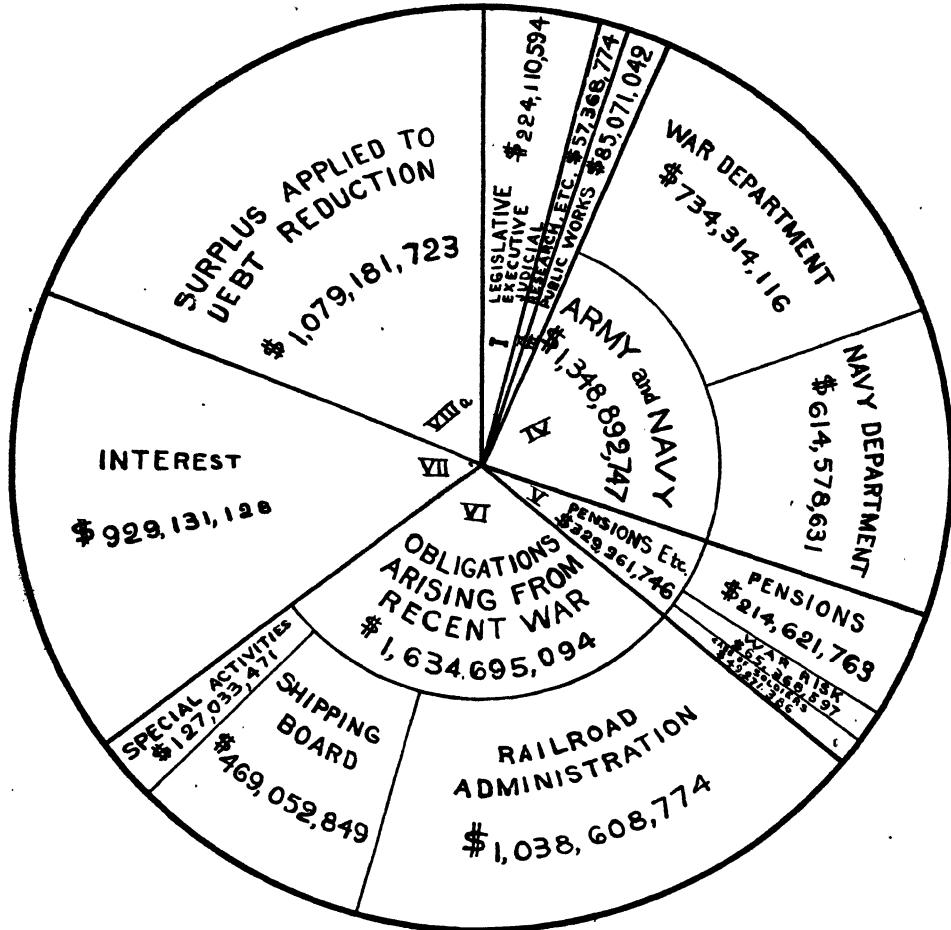
Fig. 13 presents an analysis of the *appropriations* for the fiscal year ending June 30, 1920. The appropriations included in all the regular supply bills and the three deficiency bills passed prior to May 1, 1920, amounted to \$5,686,005,706.

The appropriations were classified under six main headings which, with the corresponding percentages of the total allotted to each, are as follows:

	Per cent
Obligations arising from recent and previous wars.....	67.81
Army and Navy.....	25.02
Primary government functions (legislative, executive and judicial).....	3.19
Public Works (permanent construction).....	2.97
Research, educational, and developmental work.....	1.01
Commercial or self-supporting activities (Post Office, Patent Office, Panama Canal, etc.).....	.....

TOTAL..... 100.00

For details regarding the classification and a discussion of the research, educational and developmental work see "The Economic Importance of the Scientific Work of the Government," *Journal,*



TOTAL NET EXPENDITURES - 1920

\$ 5,687,712,848

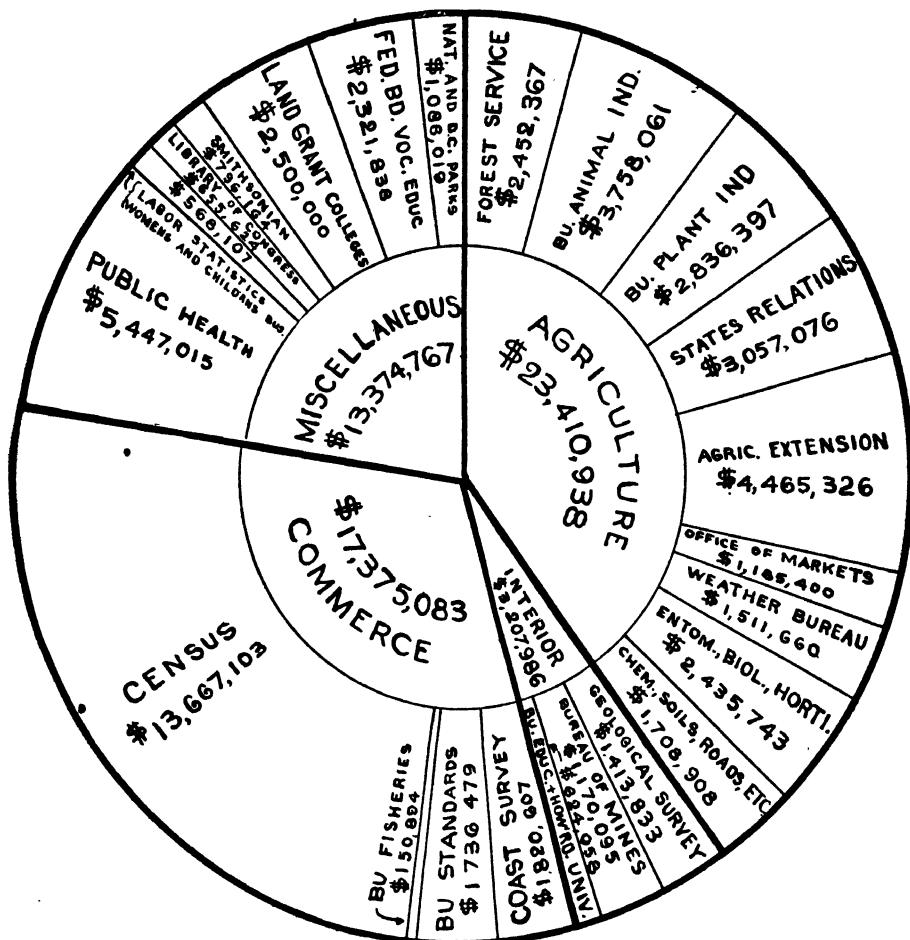
(NOT INCLUDING LOANS AND TRUST FUNDS)

FIGURE 14

This figure represents the total net expense for 1920 (as shown in Fig. 1) and in addition, the sum of \$1,079,181,723,—which is the surplus of total net tax revenue (as shown in Fig. 2) or total net expenses,—applied to the reduction of the Public Debt. This item is included with the current expense items shown in the figure in order to show the disposition of the entire amount collected by taxation.

The percentage distribution of the expenditures is as follows:

Primary Governmental Functions	3.9%
Research, Education, Development	1.0
Public Works—New Construction	1.5
Army and Navy	23.7
Pensions (5.8), Interest (16.3), Debt Reduction (19.1), and Recent War Obligations (28.7)	69.9
Total	100.0%



**GROUP II—RESEARCH, EDUCATION AND DEVELOPMENT
NET EXPENDITURES—FISCAL YEAR 1920—\$57,368,774**

FIGURE 15

This figure shows the allocation of net expense in 1920 under Group II—Research Education and Development. The percentage distribution of expenses among the subgroups is as follows:

Agriculture—Group II	40.8%
Interior—Group II	5.6
Commerce—Group II	30.3
Miscellaneous Welfare and Education..	23.3
<hr/>	
Total.....	100.0%

is caused by the fact that money collected by the Internal Revenue can not be turned over to the Treasury and entered on its books the same day, and hence at the end of the fiscal year there will be a difference in totals, which is not the same as at the beginning of the year, and also by the fact that the rebates for over-payments have not been deducted.

Figure 9 is a graphical representation of the 1920 column of Table 11, which gives the receipts from internal revenue, customs and tax on national bank circulation for the eleven fiscal years, 1910-20, inclusive. During the first four years internal revenue is tabulated under four headings, distilled spirits and beverages, tobacco, excise tax on corporations and miscellaneous, the latter including oleomargarine, certain kinds of butter, etc. In 1914 income tax was added to the number, and later the five other headings shown in the table. This table is self-explanatory, and shows clearly the sources of the government's income from taxation and how it has grown in recent years.

Expenditures Before and During the War

Group I. Table 14 gives in the first column the average net expenditures for the seven pre-war years of the one hundred and six branches into which the activities of the Federal Government have been subdivided in this classification; in the second column the average net expenditures during the three war years, 1917, 1918 and 1919; and in the last column the net expenditures for 1920. The war began only three months before the end of the fiscal year 1917, and comparatively small war expenditures fell in that fiscal year, so that the three year average for most of the war

TABLE II
REVENUES OF U. S. GOVERNMENT
FISCAL YEARS 1910-1920

Internal Revenue	1910	1911	1912	1913	1914
1. Income Tax.....	\$208,601,600.08	\$219,647,635.90	\$219,660,258.28	\$230,146,332.14	\$60,710,197.52
2. Distilled Spirits and Beverages.....	58,118,487.03	67,005,950.56	70,580,151.60	76,789,424.75	226,179,639.76
3. Tobacco.....	20,959,938.59	33,511,925.00	28,553,259.81	35,006,299.84	79,986,639.68
7. Excise Tax on Corporations.....	2,277,204.46	2,361,188.27	2,782,925.00	2,482,397.12	10,671,077.22
10. Misch. (Butter, Oleomargarine, etc.).....					2,461,289.78
Total Internal Revenue.....	\$289,957,220.16	\$322,526,239.73	\$321,615,894.69	\$344,424,453.85	\$680,008,893.96
Customs—Total.....	323,510,307.50	303,068,042.49	301,770,569.79	310,957,199.09	283,773,870.45
Tax on National Bank Circulation.....	3,333,011.03	3,503,502.48	3,637,008.78	3,730,059.08	3,883,198.14
Total.....	\$616,809,538.69	\$629,097,844.70	\$627,023,473.26	\$658,411,712.02	\$667,665,962.55

TABLE II,—Continued

<i>Internal Revenue</i>	1915	1916	1917	1918	1919	1920
1. Income and Excess Profits	\$80,201,758.86	\$124,937,232.61	\$387,382,343.96	\$2,892,324,865.89	\$2,600,783,902.70	\$3,956,936,008.60
2. Distilled Spirits and Beverages	223,948,646.09	247,453,543.52	284,008,512.62	446,054,726.01	490,233,073.72	197,332,105.84
3. Tobacco	79,957,373.54	88,063,947.51	103,201,592.16	156,188,659.90	206,003,091.84	235,809,355.44
4. Transportation, Communication and Ins.	.....	.....	.....	77,228,575.49	242,348,453.61	307,769,841.36
5. Luxuries (Autos, Candy, Furs, etc.)	3,635,338.13	4,905,815.19	1,492,865.68	37,846,983.79	81,357,473.54	270,971,064.27
6. Estate Inheritance	.....	.....	6,076,575.26	47,452,879.78	82,029,988.13	103,035,563.24
7. Capital Stock of Corp., s., Brokers, etc.	3,367,797.87	4,900,907.16	13,303,484.50	25,329,601.11	29,824,327.95	95,141,732.50
8. Stamps on Legal Documents	20,494,474.75	38,110,828.49	8,254,341.88	21,874,734.47	43,751,340.04	81,259,365.47
9. Admissions to Amusements	1,599,381.31	2,007,201.05	2,405,298.37	30,974,555.67	58,064,876.88	86,710,525.59
10. Miscellaneous	2,476,253.31	2,344,338.24	3,268,676.01	3,680,208.82	5,153,555.15	9,014,694.50
Total Internal Revenue*	\$415,681,023.86	\$512,723,227.77	\$809,393,640.44	\$3,698,955,820.93	\$3,850,150,078.56	\$5,407,580,251.81
Customs—Total	197,663,176.16	194,356,331.59	206,027,585.45	167,073,638.00	171,110,221.07	236,274,230.35
Tax on National Bank Circulation	3,908,606.90	3,838,034.25	3,611,802.43	4,691,310.26	3,806,646.42	7,172,598.48
Postal War Revenue	.....	.....	.....	39,073,000.00	71,906,000.00	4,913,000.00
<i>Total</i>	\$617,252,806.92	\$710,917,673.61	\$1,019,033,028.32	\$3,909,793,769.19	\$4,096,972,946.05	\$5,715,940,080.64

* Only Customs and Bank Tax items are net. The Internal Revenue items must be corrected for refunds and rebates, averaging about half of one per cent, paid out of a separate fund in the Treasury. The corrected net totals are given in Table I.

TABLE 12
AVERAGE ANNUAL NET EXPENDITURES OF FEDERAL GOVERNMENT
(EXCLUSIVE OF WAR COST 1917-1919)
FISCAL YEARS 1910-1919

Group	Amount	Per Cent of Total
I—Primary Governmental Functions.....	\$105,755,525	16.0%
II—Research, Education, Development.....	27,838,313	4.2
III—Public Works.....	77,743,450	11.7
Average Annual Civil (I-II-III).....	\$211,337,288	31.9%
IV—Army and Navy.....	\$262,379,972*	39.7%
V—Pensions and Care of Soldiers.....	163,807,961*	24.8
VII—Interest.....	24,028,649*	3.6
Average Annual Total.....	\$661,548,870	100.0%

* For the years 1917-1919 it is assumed that the annual expenditures for Groups IV, V, and VII would normally have been \$275,000,000, \$160,000,000 and \$25,000,000 respectively. See Table 13.

TABLE 13
NET EXPENDITURES (NORMAL) OF FEDERAL GOVERNMENT
FISCAL YEARS 1910-1919

Year Ending June 30	Civil Groups I-II-III		Army and Navy IV Net Amount	Pensions Interest V-VII Net Amount	Total	
	Net Amount	Per Capita			Net Amount	Per Capita
1910.....	\$207,125,688	\$2.24	\$247,225,025	\$185,151,757	\$639,502,470	\$6.93
1911.....	196,640,988	2.10	243,019,696	182,896,574	622,557,259	6.65
1912.....	202,511,853	2.13	247,018,430	178,807,271	628,337,554	6.61
1913.....	210,039,082	2.18	250,205,646	202,516,926	662,761,653	6.87
1914.....	210,162,388	2.15	264,814,047	199,233,674	674,210,109	6.89
1915.....	231,288,542	2.33	258,465,250	189,958,664	679,712,456	6.84
1916.....	201,427,156	2.00	288,051,628	184,751,235	674,230,020	6.69
1917.....	199,860,650	1.96	275,000,000*	185,000,000*	659,860,650	6.47
1918.....	222,458,285	2.15	275,000,000*	185,000,000*	682,458,285	6.58
1919.....	231,858,252	2.21	275,000,000*	185,000,000*	691,858,252	6.58
Total.....	\$2,113,372,884	\$21.43	\$2,623,799,722	\$1,878,316,101	\$6,615,488,708	\$67.08
Average ..	211,337,288	2.14	262,379,972	187,831,610	661,548,871	6.71
Percentage of total..	31.9%		39.7%	28.4%	100.0%	

* Estimated normal amounts.

agencies is considerably below the average of 1918 and 1919.

Under Legislative, the expense in war years averaged only 15 per cent more than in the prewar years. Most of this increase was in the government printing office, and considering the increase in the cost of labor and materials during these years, this is not a surprising increase.

Under Executive, the increase is mainly due to the heavy increase in the work thrown upon the Civil Service Commission by the war and the growth of the new Bureau of Efficiency.

The State Department had enormously increased responsibilities during the war, and its average was almost 100 per cent above the prewar average.

In the Treasury item 12, administrative, increased very largely. This, however, included additional compensation to all employes of the Treasury. The Internal Revenue more than doubled in cost; the Coast Guard increased 60 per cent; the Bureau of Engraving and Printing increased nearly 25 per cent; and the total (excluding those parts of the Treasury included in groups II, III and V) increased 46 per cent. Loans and currency show a decrease in net expense due to unusually large earnings during the war.

The average increase in the net expenditures of that part of the Interior Department included in group I during the war was 20 per cent. One-half of this increase was in item 25, the Indian Service, and the other half in all other items, and was largely due to the increased compensation of employes. The Patent Office earned a surplus almost as large as before the war.

The Post Office Department had a considerable surplus in each of the three war years, the average being \$8,156,550. In the seven pre-war years the average net cost (deficit) of the

Post Office Department, including overhead management, was \$4,189,546. That makes a difference of over twelve million dollars a year in the balance sheet, in comparison with pre-war years, and offsets a considerable part of the extra cost of group I in the war period.

The Department of Agriculture expended on the activities included in group I, 49 per cent more than the average of the seven pre-war years. This was, however, a gradual growth, being only 20 per cent more than 1915 and 10 per cent more than 1916.

The activities of the Department of Commerce included in group I increased in cost by 22 per cent over the pre-war average, but only 15 per cent over the average of 1915 and 1916. The Bureau of Navigation was more than self supporting, due to the large number of fees collected.

The principal part of the Department of Labor included in group I is the Immigration Service. Before the war, owing to a very large immigration, it earned a surplus. During the war, when immigration was greatly reduced, its earnings fell to about one-fourth of those of 1913 and 1914, and the average net expense of the department was \$2,464,156 per year instead of an average surplus of \$391,433 as it was before the war.

The activities of the Department of Justice were greatly increased during the war and its net expenses were 67 per cent greater than the average of pre-war years, and 54 per cent greater than in 1915 and 1916.

The federal courts and penal establishments increased in cost during the war by only about 10 per cent above the average of pre-war years.

The work of the Interstate Commerce Commission increased in cost in the war years about 133 per cent over the average of pre-war years. This

TABLE 14
AVERAGE ANNUAL NET EXPENDITURES OF U. S. GOVERNMENT—FISCAL YEARS 1910-1920
For 7 Pre-war Years, 3 War Years, and in 1920

	Average 1910-1916	Average 1917-1919	1920
GROUP I—PRIMARY GOVERNMENTAL FUNCTIONS			
<i>Legislative</i>			
1. Senate	\$1,878,445	\$1,961,681	\$2,585,046
2. House of Representatives	4,980,174	5,345,202	7,077,763
3. Legislative, Miscellaneous	339,756	407,208	221,360
4. Capitol Buildings and Grounds	1,045,913	826,463	895,937
5. Government Printing Office	5,232,287	7,025,587	8,507,117
Total.....	\$13,496,575	* \$15,566,141	\$19,266,523
<i>Executive</i>			
6. President, Vice President, etc.	\$199,696	\$204,194	\$225,152
7. Civil Service Commission	307,594	479,264	541,747
8. Bureau of Efficiency	(2 yrs.) 19,939	84,907	150,908
9. Tariff and other Commissions	125,206	168,662	298,244
Total.....	\$638,193†	\$937,027	\$1,216,051
<i>State Department</i>			
10. State Department Proper	\$380,462	\$602,273	\$1,269,402
11. Diplomatic and Consular Service	2,284,181	4,589,567	7,251,115
Total.....	\$2,614,643	\$5,191,840	\$8,590,517

† See note p. 60.

EXPENDITURES AND REVENUES OF THE FEDERAL GOVERNMENT

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Treasury				
12. Administrative, Clerical, etc.....	\$834,983	\$82,649,865	\$12,670,141	
13. Auditors, Comptrollers, Treasurer, etc.	2,357,216	2,739,914	4,484,100	
14. Customs.....	9,065,061	8,972,951	9,049,870	
15. Internal Revenue.....	6,154,288	13,939,599	29,450,125	
16. Coast Guard.....	5,040,764	8,032,919	10,324,940	
17. Bureau of Engraving and Printing.....	3,615,901	4,477,722	5,659,590	
18. Independent Treasury, Mint, etc.....	1,565,331	1,935,600	1,908,731	
19. Fiscal: Loans and Currency, etc.....	1,047,076	511,758	2,105,880	
Total.....	\$29,680,620	\$43,200,328	\$75,653,377	
<i>Interior</i>				
20. Office of Secretary and Miscellaneous	\$938,770	\$1,983,113	\$3,456,828	
21. Land Office and Land Service.....	1,830,292	2,039,827	1,572,853	
22. Patent Office.....	- 683,985*	- 635,851*	- 962,397*	
23. Hospital and Relief.....	573,372	736,258	1,186,036	
24. Territorial Governments	229,017	99,735	18,616	
25. Indian Office and Indian Service.....	9,537,654	10,734,599	11,971,123	
Total.....	\$12,420,120	\$14,937,681	\$17,243,059*	
<i>Post Office Department</i>				
26. Post Office Department Property.....	\$1,682,991	\$1,157,295	\$2,239,339	
27. Postal Service Miscellaneous.....	250,271	130,537	35,972,003	
28. Postal Service Deficit or Surplus.....	2,256,284	- 10,034,382*	- 185,146*	
Total.....	\$4,189,546	\$- 8,156,550*	\$38,026,196	
<i>Department of Agriculture</i>				
29. Salaries and Miscellaneous Expenses.....	\$3,632,397	\$5,903,563	\$8,930,361	
30. Meat Inspection Service.....	3,034,176	3,420,697	3,753,943	
31. Land to Protect Watersheds	(6 yrs.) 745,962	1,336,957	663,271	
32. Enforcement of Grain Standards, etc.....	677,440	1,149,550	1,260,884	
Total.....	\$7,983,409†	\$11,870,767	\$14,608,459	

* Surplus. † See note p. 60.

THE ANNALS OF THE AMERICAN ACADEMY

TABLE 14—(Continued)

	Average 1910-1916	Average 1917-1919	1920
Group I—(Continued)			
<i>Department of Commerce</i>			
33. Office of Secretary and Miscellaneous.....	\$284,849	\$672,218	\$2,324,392
34. Bureau of Navigation.....	—109,504*	—20,576*	203,765
35. Steamboat Inspection Service.....	522,329	683,637	969,644
36. Bureau of Lighthouses.....	5,510,293	6,037,291	8,896,989
37. Foreign and Domestic Commerce.....	217,305	476,139	860,274
Total.....	\$6,425,272	\$7,848,759	\$13,155,064
<i>Department of Labor</i>			
38. Office of Secretary and Miscellaneous.....	\$140,047	\$311,685	\$1,343,392
39. Immigration and Naturalization.....	—531,480*	2,152,471	113,034
Total.....	—\$391,433*	\$2,464,156	\$1,356,426
<i>Department of Justice</i>			
40. Salaries, Expenses and Sundries.....	\$1,402,695	\$2,349,038	\$4,496,082
Total.....	\$1,402,695	\$2,349,038	\$4,496,082
<i>Judicial</i>			
41. Federal Courts and Penal Establishments.....	\$7,410,377	\$8,127,740	\$10,789,974
Total.....	\$7,410,377	\$8,127,740	\$10,789,974

EXPENDITURES AND REVENUES OF THE FEDERAL GOVERNMENT

57

GROUP I—(Continued)

<i>Independent Commissions and Activities</i>				
42. Interstate Commerce Commission.....	\$2,322,439	\$5,409,613	\$5,750,470	
43. Federal Trade Commission.....	238,226	919,868	1,019,446	
44. Employees Compensation and Retirement.....	.....	807,961	2,239,925	
45. Miscellaneous Commissions.....	(4 yrs.) 155,399	— 109,365*	— 571,408*	
46. District of Columbia.....	3,926,802	3,894,556	7,483,963	
47. Panama Canal—Maintenance and Operation.....	(2 yrs.) 501,150	2,433,763	— 3,863,503*	
48. Public Buildings and Grounds—Maintenance and Operation.....	5,017,183	6,665,750	7,721,378	
49. Extraordinary Expenses.....	(4 yrs.) 187,166	.....	.....
Total.....	\$11,845,273†	\$20,022,146	\$19,778,866	
GROUP I—Total.....	\$97,718,290	\$124,509,073	\$224,110,594	
GROUP II—RESEARCH, EDUCATION, DEVELOPMENT				
<i>Department of Agriculture</i>				
50. Forest Service.....	\$2,231,519	\$736,085	\$2,452,367	
51. Bureau of Animal Industry.....	2,112,579	2,718,565	3,758,061	
52. Bureau of Plant Industry.....	1,957,768	2,408,606	2,836,397	
53. States Relation Service.....	1,722,089	2,840,113	3,057,076	
54. Cooperative Agricultural Experiment Work.....	(2 yrs.) 777,467	2,076,081	4,465,326	
55. Markets and Rural Organization.....	(4 yrs.) 158,393	754,155	1,185,400	
56. Weather Bureau.....	1,471,936	1,432,217	1,511,630	
57. Bureau of Entomology.....	584,605	787,752	1,194,979	
58. Bureau of Chemistry.....	145,144	226,580	359,680	
59. Bureau of Biological Survey.....	156,161	538,638	645,680	
60. Public Roads and Rural Engineering.....	387,354	477,544	402,092	
61. Bureau of Soils.....	237,903	340,517	366,917	
62. Bureau of Crop Estimates.....	126,040	204,761	223,137	
63. Farm Management and Farm Economics.....	220,408	201,637	198,833	
64. Horticulture and Insecticide.....	.....	241,940	595,084	
65. Miscellaneous.....	(6 yrs.) 54,050	48,355	158,249	
Total.....	\$11,528,358	\$16,033,566	\$23,410,938	

* Surplus. † See note p. 60.

TABLE 14—(Continued)

	Group II—(Continued)	Average 1910-1916	Average 1917-1919	Average 1920
<i>Department of Interior</i>				
66. Geological Survey	\$1,251,759	\$1,422,734	\$1,413,833	
67. Bureau of Mines	520,846	1,377,907	1,170,095	
68. Bureau of Education and Howard University	388,359	446,365	624,058	
Total	\$2,110,964	\$3,247,006	\$3,207,986	
<i>Department of Commerce</i>				
69. Coast and Geodetic Survey	\$1,008,598	\$1,116,012	\$1,820,607	
70. Bureau of Standards	532,976	1,248,169	1,736,479	
71. Bureau of Fisheries	870,029	904,252	150,894	
72. Bureau of the Census	2,912,872	1,122,513	13,667,103	
Total	\$5,334,475	\$4,390,946	\$17,375,083	
<i>Miscellaneous</i>				
73. Public Health Service	\$2,175,298	\$3,943,049	\$5,447,015	
74. Bureau of Labor Statistics	(4 yrs.) 220,867	360,670	301,749	
75. Children and Women's Bureau	(4 yrs.) 84,055	270,346	266,358	
76. Library of Congress	491,657	528,425	655,624	
77. Smithsonian Institute and National Museum	724,341	653,519	796,164	
78. Colleges for Agriculture and Mechanic Arts	2,392,857	2,500,000	2,500,000	
79. Federal Boards for Vocational Education .....	.....	(2 yrs.) 1,480,450	2,321,838	
80. National and D. C. Parks, Botanical Gardens	316,637	773,116	1,086,019	
Total	\$6,215,031†	\$10,021,092†	\$13,374,767	
Group II—Total	\$25,329,328	\$33,692,610	\$57,368,774	

† See note p. 60

EXPENDITURES AND REVENUES OF THE FEDERAL GOVERNMENT

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GROUP III—Public Works				
81. Rivers and Harbors.....	\$37,759,755	\$29,649,095	\$47,445,010	
82. Panama Canal Construction.....	28,138,498	5,835,581	1,081,175	
83. Public Buildings, New Construction.....	14,583,141	11,038,504	6,529,736	
84. Rural Post and Forest Roads.....	(1 yr.) 26,5327 (4 yrs.) 1,213,556	1,568,988 8,742,468	25,021,008 6,240,053	
85. Alaska Railway.....	4,201,152	3,039,344	-1,245,940*	
GROUP III—Total.	\$85,408,910†	\$59,857,380	\$85,071,042	
GROUP IV—ARMY AND NAVY				
87. War Department (except Rivers and Harbors, etc.).....	\$122,557,833	\$5,084,169,160	\$728,416,853	
88. Navy Department.....	132,388,753	1,213,377,684	614,578,630	
89. Armament and Fortification—Panama Canal.....	(6 yrs.) 2,178,033	3,991,974	3,438,593	
90. Maintenance and Care—State, War and Navy Buildings.....	157,918	753,387	2,463,671	
GROUP IV—Total.	\$256,971,389†	\$6,302,322,105	\$1,348,892,747	
GROUP V—PENSIONS AND CARE OF SOLDIERS				
91. Pension Office and Pensions.....	\$165,300,623	\$189,095,246	\$214,621,763	
92. War Risk Insurance.....	.....	(2 yrs.) 69,985,835	65,368,597	
93. Rehabilitation of Soldiers, Federal Board of Vocational Education.....	.....	(1 yr.) 1,900,409	32,659,836	
94. Care of Soldiers—Public Health Service.....	(4 yrs.) 243,812	537,710	16,611,550	
GROUP V—Total.	\$165,439,944†	\$236,816,982†	\$329,261,746	
GROUP VI—OBLIGATIONS ARISING FROM RECENT WAR				
95. Railroad Administration.....	.....	(2 yrs.) \$248,183,400	\$1,038,608,774	
96. Shipping Board.....	.....	916,062,079	469,052,849	
97. Food and Fuel Administration.....	.....	86,379,936	-1,860,982*	
98. Miscellaneous Boards and Commissions.....	.....	24,746,561	-3,322,865*	
99. Special War Activities.....	.....	41,404,777	132,216,619	
GROUP VI—Total.		\$1,205,255,174†	\$1,634,695,094	

* Surplus.

† See note p 60

TABLE 14—(Concluded)

	Average 1910-1916	Average 1917-1919	1920
GROUP VII—INTEREST			
100. Interest on Public Debt.....	\$22,286,593	\$270,926,205	\$957,558,754
101. Interest on Loans and Trust Funds	1,318,620	—155,072,965*	—28,427,628*
GROUP VII—Total.....			
	\$23,605,213	\$115,853,240	\$999,131,128
GROUP VIII—PUBLIC DEBT, LOANS AND TRUST FUNDS			
102. Public Debt Transactions.....	—\$11,401,317*	—\$8,085,631,219*	\$1,184,098,321
Total Public Debt.....	—\$11,401,317*	—\$8,085,631,219*	\$1,184,098,321
103. Loans to European Governments.....	.....	\$3,031,571,672	\$350,291,839
104. Loans to Farmers, Banks, etc.....	.....	169,050,882	176,277,057
105. Seigniorage.....	—\$5,265,602*	6,168,925	—11,890,120*
106. Trust Funds.....	283,191	3,998,039	—793,522*
Total Loans and Trusts	—\$4,982,411*	\$3,210,794,518	\$513,885,254
GROUP IX—REVENUE			
107. Customs	\$273,486,931	\$181,403,815	\$296,274,230
108. Internal Revenue	368,324,751	2,774,804,615	5,379,353,020
109. Tax on Bank Circulation	3,090,489	4,036,586	7,172,598
110. Post Office War Revenue .....	.....	(2 yrs.) 55,439,500	4,913,000
GROUP IX—Total.....	\$645,502,171	\$2,997,938,016†	\$5,687,712,8

* Surplus.

† Note: In cases where some items extend through less than the full period the sum given is the weighted mean for the period, not the simple sum of the amounts given.

was due mainly to the valuation of the railways which began in the latter part of the pre-war period.

The total for group I averaged \$97,718,290 in the seven pre-war years and \$124,509,073 during the war, an increase of 26 per cent. More than half of this increase was in the Treasury Department. Compared with the average of 1915 and 1916, the increase in total was only 12 per cent. That is partly accounted for by the normal growth of the government, partly by increased war activities and partly by increased cost of supplies and wages in the later years. Although it is reduced appreciably by the surplus of the Post Office, comparison of costs with those of private business would show that these figures for the government are exceedingly moderate, less than one might have expected.

Group II. Half of the thirty-one services listed in group II are in the Agricultural Department. The average expenditure for the activities of this department which are included in group II was \$11,528,858 per year during the seven pre-war years and \$16,033,566 per year for the three war years, an increase of 39 per cent. The Forest Service had a much smaller net expense during the war than before, owing to the very large earnings (see table 15). The Bureau of Animal Industry increased 29 per cent over the pre-war average, although it was no increase over 1916, and only half of what was spent in 1915. During these two years five million dollars was appropriated for the eradication of foot and mouth and other contagious animal diseases. Similarly, the Bureau of Plant Industry expended in the war years 23 per cent more than in the average of the seven pre-war years, but no more than 1915 and 1916. The States Relation Service succeeded the Agricultural Experiment Stations in

1915 and this work has since that time greatly increased. The average expenditure during the six years 1910 to 1915 was slightly more than one and a half millions of dollars per year. In 1916 it was \$2,607,013 and during the three war years it averaged \$2,840,113. Coöperative Agricultural Extension work began in 1915 with an expenditure of \$480,000. In 1916 it spent \$1,074,935, and during the three war years it averaged \$2,076,081. Markets and Rural organizations began in 1914, and averaged \$158,393 in 1914, 1915 and 1916, and \$754,155 in the three war years. The Weather Bureau averaged \$1,432,217 during the war years, being slightly less than during the preceding seven years. Nearly all the remaining bureaus of the Agricultural Department increased their expenditures during the war years as compared with pre-war years. Entomology increased 35 per cent, Chemistry 53 per cent, Biological Survey 238 per cent, Public Roads and Rural Engineering 23 per cent, Soils 43 per cent, and the remaining miscellaneous activities (items 62-65) 74 per cent.

In the Interior Department the Geological Survey increased its expenditure during the war years by 14 per cent over the average of the pre-war years; the Bureau of Mines (newly established in 1910) 164 per cent, and the Bureau of Education and Howard University together 12 per cent, the total for the department having increased 50 per cent, or 10 per cent per year on the average for the five years between the middle of the two periods.

In the Department of Commerce the Coast and Geodetic Survey increased its expenditures during the war years about 11 per cent over the average of the pre-war years, the Bureau of Standards (a relatively new and growing bureau) 22 per cent, the Bureau of

Fisheries 4 per cent, while the Bureau of the Census decreased largely, owing to the fact that the Census of 1910 was included in the earlier period. The Census expended during the three war years an average of \$1,122,000 per year, which was slightly less than during the years 1914, 1915, 1916. The total for the department was on the average nearly a million dollars a year less during the war than before, but omitting the extra cost of the census of 1910, there was a small increase.

In the Public Health Service the expenditures in the war years increased 81 per cent over the average of the seven pre-war years. The Bureau of Labor Statistics and the Children's Bureau (both in the Department of Labor) were organized in 1913 and started very small so that the percentage increase was relatively large, being 63 per cent for the first and 221 per cent for the second. The net expenses of the Library of Congress averaged \$491,657 during the seven pre-war years and \$528,425 during the three war years, an increase of 7.5 per cent. The Smithsonian Institution and the National Museum averaged \$658,519 during the three war years, which was \$65,822 less than the average during the pre-war period.

The expenditures for Colleges of Agriculture and Mechanic Arts amounted to \$2,000,000 in 1910, \$2,250,000 in 1911, and since then it has been \$2,500,000 every year. The Federal Board for Vocational Education was in operation only during 1918 and 1919, and its expenditures were \$1,412,883 in 1918 and \$1,548,017 in 1919. National and District of Columbia Parks and the Botanical Gardens cost \$316,637 on the average during the seven pre-war years and \$773,116 during the three war years.

The total for group II was \$25,329,328 on the average for the prewar years

and \$33,692,610 per year for the three war years, an increase of 33 per cent.

Group III. In group III there were considerable reductions in several items during the war period, partly because of the war and partly because the Panama Canal was very nearly completed by 1915.

For River and Harbor improvements the expenditures averaged \$37,759,755 during the pre-war period, and dropped to an average of \$29,643,095 during the war period. For Panama Canal construction the expenditures averaged \$28,133,498 during the pre-war period and only \$5,835,581 during the war period. (This does not include operating expenses or earnings during the five years 1915 to 1919 of this time when it was open to traffic; these are included in group I.) New construction of public buildings cost \$14,583,141 per year during the pre-war period and \$11,038,504 per year during the war. This does not include any of the work of the Bureau of Housing and Transportation, a strictly war activity, which is in group VI, item 98. Rural, post and forest roads had \$265,327 in 1915, the only pre-war year in which anything was spent under this heading. In 1917 there was spent \$34,994, in 1918, \$843,474, and in 1919, \$3,826,694. For the Alaska Railway there was expended a total of \$706,212 during 1913, 1914 and 1915, and \$4,148,011 in 1916. During the next three years the average expenditure was \$8,742,468. The Reclamation Service expended \$4,201,152 on an average during the seven pre-war years and \$3,029,344 per year during the three war years above its earnings from rentals, water rights, and receipts from the sale of land. This includes a loan from the government of \$20,000,000 which is to be repaid, beginning this year. (See footnote to table 8.)

The total expenditures for group III

averaged \$85,408,910 during the pre-war period and \$59,857,380 per year during the war period. The total expenditures for the three civil groups I, II and III averaged \$208,456,528, during the seven pre-war years and \$218,059,063 per year during the three war years, an increase of slightly less than 5 per cent in the five years between the middle of those two periods. The population of the country increased during the same time nearly 8 per cent, so that the average rate of increase of the total expense of the three civil groups was about half as great as the rate of increase of population. The increase of cost of materials and labor was of course considerable, while there was a considerable growth in many bureaus and other branches of the government, and the inauguration of some new ones, and also a very great increase of functions and cost in some cases due to the war. However, the reduction in the construction work included in group III, and the surplus during the war of the post office, nearly counter-balanced these increases, so that the average per capita cost of the three civil groups was actually a little less during the war years than before.

In the military groups the increase during the war was of course very large. For the War Department the net expenditures averaged \$122,557,833 per year during the seven pre-war years and \$5,084,199,160 per year during the three war years, exclusive of the armament and fortifications of the Panama Canal and the care of the war and navy buildings. For the Navy Department the net expenditures averaged \$132,388,-753 before the war and \$1,213,377,684 during the war. The total of group IV increased from \$256,971,389 per year to \$6,302,322,105 per year, the latter being nearly twenty-five times the former. More details of the expenditures in the War and Navy Depart-

ments for the period 1910-19 are given in tables 9 and 10. Pensions (item 91) were \$162,568,510 in 1910; they decreased in 1911 and again in 1912, were increased to \$177,070,737 in 1913, decreased steadily until 1917 when they were \$161,818,832; increased to \$182,-549,161 in 1918 and again to \$222,917,-744 in 1919.

EARNINGS

Table 15 gives the earnings of fourteen different departments or branches of the government included in group I, and the total of all for the ten-year period 1910-19, inclusive. Executive and Justice were very small and are not given, although they are included in the totals of group I. In Legislative, the earnings were almost entirely those of the Government Printing Office except in 1916 and 1917, which include \$409,715 contributed toward the Red Cross Memorial Building, and later disbursed under Legislative Miscellaneous.

State Department earnings were mainly passport and consular fees, and do not include receipts of trust funds which are in item 106. Customs earnings were fines, penalties, forfeitures, payment for night services of customs officers and employes, storage, drayage, costs in customs suits, reappraisements, etc. Treasury Miscellaneous is mainly assessment upon national banks for the expenses of examinations, and other reimbursements from national banks.

Patent Office earnings were the fees for the granting of letters patent. The Indian Service credits are proceeds of sales to Indians and reimbursements on account of moneys advanced to Indians of various tribes in previous years, that is, loans to help them establish themselves. These sums were charged to the Indian Service, but were made with the understanding that

they were to be reimbursed without interest. The large item credited in 1911 was mainly due to a sinking fund that had been accumulating in the Treasury for many years to repay advances to the Chippewa Indians of Minnesota, and which was transferred in 1911 to the general fund. (This does not include the Indians' trust fund account which is in item 106.)

Interior Miscellaneous includes registers', receivers', and copying fees of the General Land Office, proceeds of town sites from the Reclamation Service, depredations on public lands, sales of public timber, royalties for coal mined on public land, deposits for expense of surveying public lands, power permits, etc. Agriculture credits are mainly from the sales of government property. Commerce earnings are mainly navigation fees, fines, penalties and forfeitures, rent of public buildings and grounds, and sales of government property.

Labor earnings are the immigration head tax, naturalization fees, fines, penalties and forfeitures and sales of government property.

Judicial earnings are from judicial fees and costs, judicial fines, penalties and forfeitures, and from unclaimed moneys remaining in registry of courts five years or longer. The District of Columbia credits are the revenues from taxation, the water fund, various trust funds and miscellaneous fees, rents, sales and collections under assessment and permit work. Panama Canal credits (since 1915 when the Canal was opened to traffic) are principally canal tolls, but include also taxes, licenses, fines, proceeds of water works, and sales of government property.

Miscellaneous Commissions, etc., include items 42-45 and items 48 and 49. Before 1915 the credits came principally from item 48, receipts from rents

of public buildings and grounds. Since 1915 the largest credits have been from assessments on federal reserve banks for salaries and expenses of the Federal Reserve Board. For example, in 1919, this was \$2,614,778. In 1915 and 1916 there was a large credit under item 49, being reimbursement to the government for money advanced to American citizens to assist them in returning from Europe at the outbreak of the European war. In 1915 this reimbursement was \$1,774,465 and in 1916 it was \$951,285, or a total of \$2,725,750, being 85 per cent of the amount disbursed for this purpose in 1915. The totals of credits for group I average \$28,065,624 per year for the ten-year period. As stated above, these credits have been deducted from the gross expenditures of the departments and bureaus to get the net expenses, but are given here separately in order to show what the earnings and credits are and how they have varied from year to year.

In group II, the credits for Agriculture are almost entirely those of the Forest Service for the sale of timber and the use of grazing lands and for other receipts from the national forests. There are also included small receipts from the sale of products of experiment stations of item 53.

Interior credits are mainly sales of maps and other government property by the Geological Survey and fees collected by the Bureau of Mines. Commerce includes sales of seal-skins and fox skins by the Bureau of Fisheries and fees of the Bureau of Standards. The largest item in the miscellaneous group (73-80) is the fees of the Library of Congress for the copyright office and the sales of index cards. The total earnings of group II average \$3,415,755 per year for the ten-year period.

Expenditures of 1920

We have seen that the increase of net expenses of the three civil groups taken together during the three war years was only 5 per cent over the average of the seven years of the pre-war period, groups I and II being greater by 26 and 33 per cent respectively, but group III considerably less. In 1920, however, expenditures increased very greatly, group I being 128 per cent greater than in pre-war years, group II, 118 per cent greater and group III, almost exactly the same, the three groups taken together increasing 75 per cent. Group IV, however, was five and a quarter times as great in 1920 as the pre-war average, (which is an increase of 425 per cent) and group V increased 100 per cent. Group VI can not be compared with the pre-war period, inasmuch as its activities did not exist before the war, but adding the three military groups together and comparing with the pre-war expenditures we find them to be \$3,312,849,587 as against \$422,515,824 before the war, an increase of 684 per cent. Group VII, interest on the public debt, less interest received, and less discount on bonds purchased in 1920, was \$929,131,128 as against \$23,605,213 before the war, the former being nearly 40 times the latter figure. Revenues from taxation increased nearly nine times.

Comparing 1920 with the average of the three war years, group I is 80 per cent greater, group II is 70 per cent greater and group III is 42 per cent greater.

The principal causes of increase in group I are (1) the great expansion in certain of the activities of the government due to the war, such as the Internal Revenue Service, and State Department, (2) the large deficit in the Post Office Department in 1920 caused by increased compensations to em-

ployees and the railroads, as contrasted with a considerable surplus during the war years, (3) the bonus paid to civil employees in other departments to partially compensate for the increased cost of living, and which, during the war years had been on the average very small, (4) the increased cost of all kinds of materials and supplies and of transportation, and (5) the normal growth of the government and the recovery from the abnormal restriction of growth in some cases during the war years.

The excess of 1920 for group I over the average of the war years, is \$99,601-521. Taking the largest items first, the difference for the Post Office Department is \$46,182,746 and for the Treasury Department \$32,363,049, together amounting to over 78 millions, leaving only 21 millions to be accounted for in all the other departments. In item 12 of the Treasury the difference of 10 million dollars is largely explained by increase of compensation to employees to cover the increased cost of living, this item covering all the employees of the Treasury Department except in the Bureau of War Risk Insurance. The number of employees of the Treasury has increased very greatly and the increase of compensation for 1920 was \$240 instead of \$120 as it had been in 1919. The total amount paid for this purpose was about seven times the average of the three war years. The Internal Revenue Service increased greatly in 1920 over 1919, and of course still more over the average of 1917-1919, amounting to 15.5 millions over the latter. Other activities of the Treasury also increased, and the difference of 32 millions is made up as shown in table 14.

The 21 millions increase in other departments is made up of 3.7 millions in Legislative, 0.3 in Executive, 3.3 in State, 2.3 in Interior, 2.8 in Agriculture, 5.3 in Commerce (more than half o

which was in the Bureau of Light Houses)—1.1 in Labor (that is, the net expenses of the Department of Labor were reduced owing to increased earnings from increased immigration), 2.1 in Justice, 2.6 in Judicial,—0.3 in miscellaneous (that is, the miscellaneous group was slightly less because of the large earnings of the Panama Canal in 1920).

The increased compensation in the Post Office, and in all other departments, and the greatly increased force required to collect the war revenue, together with the fact that compensation and development had been kept down abnormally during the war, account for the greater part of the excess in 1920 over the average of the war years. In a later section it will be shown that the number of employes in the civil departments had increased in 1920 over 1916 by only a very small per cent outside of the Treasury and State Departments, and hence this increase was not due to an excess of employes in those departments.

In group II the excess of 1920 over the average of the three war years was 25.2 millions. Of this amount 7.4 millions is in Agriculture, 13.0 millions in Commerce, 3.3 millions in miscellaneous, the Interior Department being unchanged. The principal increases in Agriculture were 1.7 millions in the Forest Service (which was abnormally small during the war on account of very large revenues from timber cut), 1.0 million in Animal Industry, 2.4 millions in Coöperative Agricultural Extension Work, and 0.4 million each in Plant Industry, Markets and Entomology. In Commerce 12.5 millions of the total increase of 13.0 millions was due to the census of 1920. The Coast Survey and the Bureau of Standards had increases of 0.7 and 0.5 millions respectively, and the Bureau of Fisheries a decrease of 0.7, due to very

large earnings from the sale of seal skins and other furs in 1920.

The Public Health Service increased 1.5 millions, the Federal Board for Vocational Education increased 1.3 millions over the average of the three war years (but only 0.8 over the average of the two years when it was operating), and other services had small increases, although the Bureau of Labor Statistics and the Children's Bureau were both less than the average of the three war years.

In group III there were large increases in some items and decreases in others, the total being 25.2 millions more than the average during the war. For Rivers and Harbors, the increase was 17.8 millions, and highway construction was 23.5 millions more. Panama Canal construction was 4.8 millions less, public buildings 4.5 millions less, Alaska Railway 2.5 millions less, and Reclamation Service 4.3 millions less.

It is scarcely worth while to compare the expenditures of the military departments in 1920 with the war period, the conditions being so different, and we have already compared them with the pre-war period.

If one recalls the enormous increase in prices of commodities and the increased cost of doing business outside the government service during 1919 and 1920 with the increases shown above for all the civil activities of the government, and recalls that a large amount of work has been added to the latter which in a strict accounting study would have been charged to the military departments (such as the cost of collecting the revenue to support the latter and pay for the war) one must admit that these increases are very moderate indeed. So far from justifying the charges of extravagance sometimes made, they show either economy

or curtailment of service, or both.⁵ This is not saying that there is no extravagance, or that there is no lack of efficiency. If in the large sum paid for the increase of compensation of employes there had been included some-

⁵As an instance of economy it may be mentioned that government employes (civil) are allowed \$4.00 per day for subsistence when traveling, or actual expenses not to exceed \$5.00 per day, the same as was allowed 20 years ago when the cost of living when traveling was scarcely more than half what it is now, and this applies also to the higher officers of the government when on the most important departmental business.

thing for the higher positions in the executive departments of the government, the salaries of which in most cases have been increased very little in twenty years, there would have been fewer losses of able and experienced men and a higher average of administration.⁶ With better management

⁶The increase of compensation of \$120 per year in 1919 and \$240 in 1920 to cover the increased cost of living applied to positions of \$2,500 per year and less; no allowance of the kind was made for the positions at higher salaries, in which the turnover has been very great.

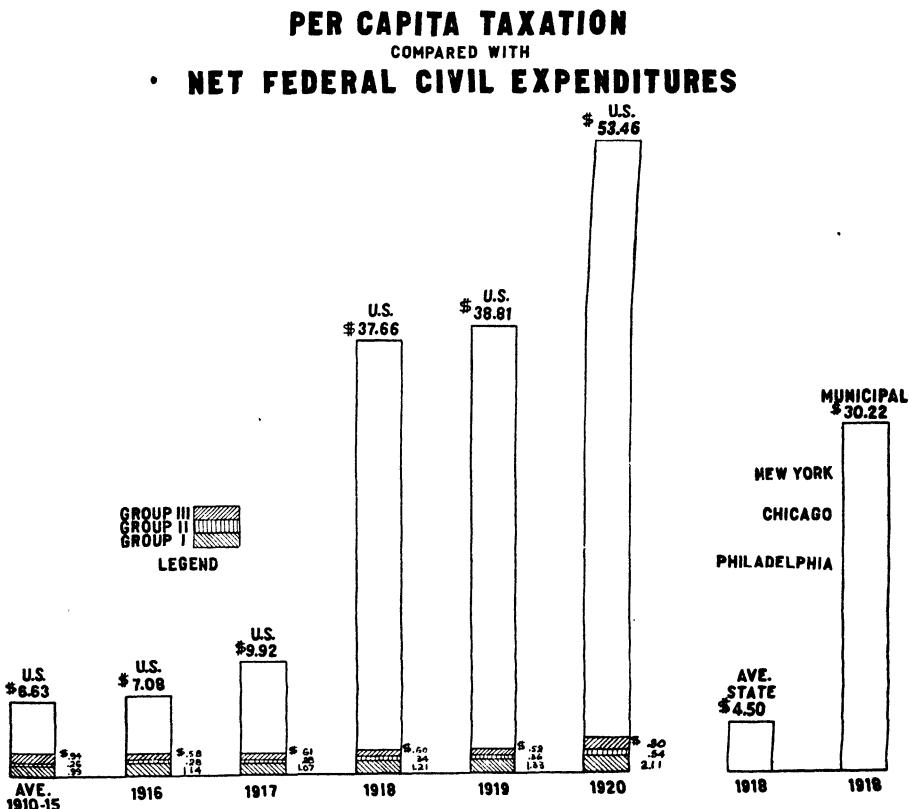


FIGURE 16

In this figure the data for per capita taxation and net U. S. expenditures for civil activities during 1910-1920 is represented so as to admit of ready comparison. For the years 1910-1915 only the average of the U. S. taxation and expense data is given, because the data for the individual years do not differ materially from the average. The state and municipal data are given only for the year 1918, but this year is fairly typical of the whole period, as shown in tables 18 and 19.

there would have been better average efficiency, fewer employees to do the same work, better service and lower total costs. It is hoped that this aspect of the problem of economy in the government service may be given the consideration that it deserves.

Per Capita Federal Taxation Compared with State and Municipal Taxation

Figure 16 shows graphically the relation between the net per capita cost to the taxpayer of all the civil activities of the Federal Government,

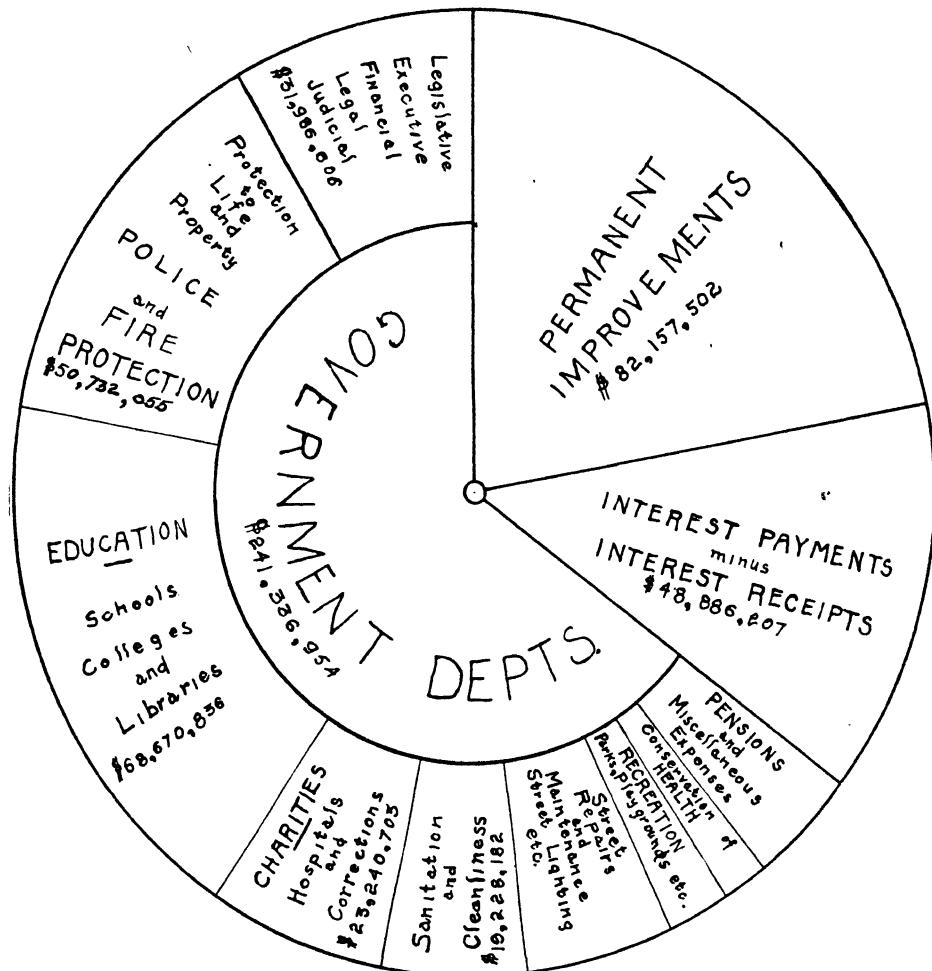


FIGURE 17

Aggregate Disbursements for the Municipal Governments of New York, Chicago and Philadelphia, for 1918, \$372,880,663. For (1) governmental purposes including police and fire protection, (2) education, health and recreation, (3) permanent improvements, (4) interest on municipal debt less interest received. These three cities have a combined population of about one-tenth of the entire United States.

and the total per capita federal, state and municipal taxation. Thus, in the six pre-war years 1910-15 the average of federal taxes collected was \$6.63 per capita, of which \$2.19, or 33 per cent, was expended for the three civil groups, and the remainder for Army and Navy, pensions and interest. In

1916, the total was \$7.08 per capita, the net expenses of the three civil groups amounting to \$2.00 or 28 per cent. In 1917, the total was \$9.92 per capita and the net expenses of the three civil groups amounted to \$1.96 per capita, or 20 per cent. In 1918, the total was \$37.66, the three civil

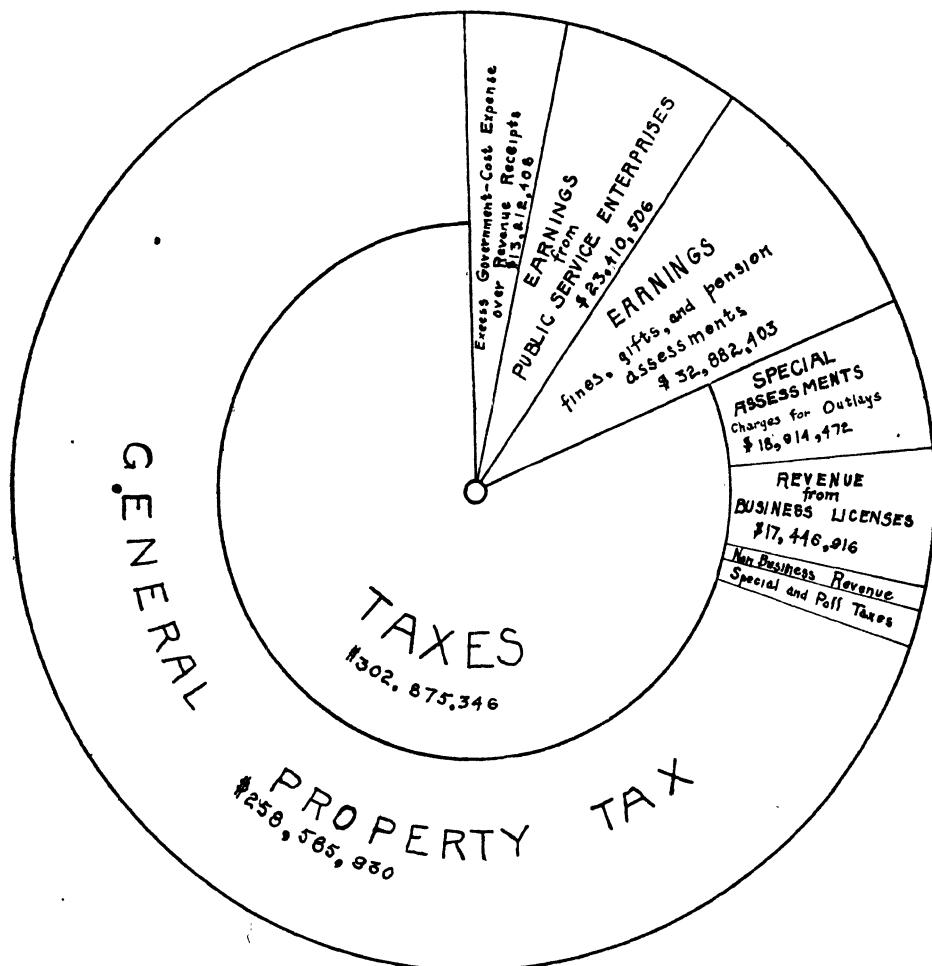


FIGURE 18

Aggregate Revenues for the Municipal Governments of New York, Chicago and Philadelphia, for 1918. The total of revenues from taxation, including business licenses and special taxes, amounted to \$302,875,346 or \$30.22 per capita of the combined population. Earnings from various sources and borrowed money to cover the net deficit amounted to \$6.94 per capita. Compare with the net per capita federal revenues from taxation.

groups expending \$2.15 per capita or 5.7 per cent. In 1919 the total was \$38.81, the three civil groups expended \$2.21 per capita, or 5.7 per cent. In 1920 the total was \$53.46, and the three civil groups expended \$3.45 per capita or 6.5 per cent. The total expenditures of course differed from these figures for revenue from taxation, as shown in table 1. The purpose in this exhibit is to call attention to the fact that the civil expenses absorb a relatively small part of the total revenue derived from taxation, especially in recent years, and that they increased very little until 1920. Attention should be called to the fact, shown in the figure, that the expenses of groups I and II did increase appreciably during the ten-year period, 1910-19, but that the construction work of group III was considerably reduced in the later years of this period, so that the total remained nearly constant.

The average taxation throughout the forty-eight states of the union in 1918 for state governmental purposes amounted to \$4.50 per capita.

The Bureau of the Census has made an investigation of the costs of municipal government in a large number of the cities of the country, having a population of 30,000 or more, and of taxation and other revenues of such cities.⁷ The results have been classified and tabulated in such a way as to facilitate study and comparison, and it is instructive to compare them with the expenses of the various agencies of the Federal Government. The three largest cities of the country, New York, Chicago and Philadelphia have been taken for illustration. Their combined population in 1918 was slightly over ten millions, or one-tenth of the population of the entire country. Their total expenses for various purposes for the

year 1918 have been added together and plotted in figure 17. The total disbursements of \$372,380,663 are expended (1) for current governmental purposes, (2) for education, public health and recreation, (3) for permanent improvements (new construction), and (4) for interest on city debts. The total amounts to \$37.16 per capita of the population, of which \$6.94 per capita consists of earnings from public service enterprises, fines, gifts and pension assessments and borrowed money, and \$30.22 per capita is collected from taxes (Fig. 18). This is less than the federal per capita tax in 1918, but more than ten times as much as federal per capita expenditures for the three civil groups. The amount spent for education, schools, colleges and libraries, in these three cities was nearly double that which was spent by the Federal Government in 1918 for research, education and public health work (group II), whereas the amount spent for all purposes was more than was spent for all the civil groups of the entire Federal Government.

For all cities of more than 30,000 population the average per capita of taxes collected in 1918 for municipal purposes is \$25.14, and the average of expenditures \$26.55.

Table 18 gives governmental revenue receipts and cost payments of municipalities of over 30,000 population, together with their total population for each year for 1910-18 inclusive, except for 1914 for which the data are lacking. The second half of the table gives the net expenses and earnings and the net revenues. Expenses are in three groups, (1) general current expenses, (2) interest payments less interest received, (3) outlays for permanent improvements. The total expense and revenues for each year divided by the population give the per capita cost and per capita tax revenue.

⁷ *Financial Statistics of Cities—1918*. Bureau of Census, Washington, 1919.

The former was remarkably constant during this eight-year period; the latter increased gradually from \$21.64 to \$25.14.

Table 19 gives the revenue receipts and governmental cost payments for all the state governments of the country for the five years 1915-19 inclusive, together with their population and per capita expense and revenue. It will be noticed that interest receipts exceeded interest payments, so that the item of interest appears under earnings instead of expense. The net per capita expenses varied between \$4.00 and \$4.73; the per capita tax revenues increased in this period from \$3.74 to \$5.06.

Review of the Functions of Federal and State Governments

Referring back now to the functions of government as outlined at the beginning, let us consider to what extent the Federal Government is doing the things that would naturally fall to it in the division of functions between federal and state activity, including in the latter the activities of municipalities, which are creatures of the state.

(a) Under protective functions (1) protection from invasion or encroachment from without is mainly a federal function and has always been performed adequately in this country and at great cost. (2) Protection of life, property and reputation is largely a function of the separate states, but many agencies of the government are concerned with safety and the protection of life and property. The Bureau of Lighthouses, Bureau of Navigation, Steamboat Inspection Service, Division of Safety of the Interstate Commerce Commission, the life saving service of the Coast Guard, the safety divisions of the Bureau of Mines and the Bureau of Standards, the Department of Justice, and other branches of the government

carry on work of this kind of great practical value, although in some cases it is small in comparison with what needs to be done. It is believed that such work amply justifies itself and should be developed and made even more effective. (3) Protection against the spread of disease is divided between the Federal Government and the states, and in recent years the Public Health Service and the Agricultural Department have been given larger means and have done more work of this kind than before, although in the aggregate the states do the greater portion of what is done. The need and the opportunity are so great and the interests at stake so vast that a few cents per capita of the country's population per year seem no adequate measure of what ought to be done by the Federal Government. It would appear to be a very proper and profitable investment for the Federal Government to increase substantially its research and coöperation with state and private medical agencies, in order to give greater returns in service to the people for taxes collected, and to promote the well-being of the nation.

(b) Under the commercial functions of government, the most conspicuous examples of such activities carried on by the Federal Government are the Post Office, Shipping Board, Panama Canal, Patent Office, and Reclamation Service. The Alaskan Railway is not yet completed, while the War Risk Insurance is not primarily commercial, although it is perhaps midway between commercial insurance and a pension system. Aside from the activities of the Shipping Board, which is comparatively new and grew out of the necessities of the war, all these commercial activities have been substantially self-supporting and have undoubtedly rendered a very valuable public service.

The Post Office is one of the most

indispensable and successful of federal activities, and nobody would suggest that it be handled by a private company; the Panama Canal is a great engineering achievement and has so far met all commercial expectations; the Patent Office is operated at a profit, but is far from satisfactory from the standpoint of service, and is asking to be strengthened and made more effective as it deserves to be; the Reclamation Service is doing a great work and while ultimately self-supporting is not as yet quite on a commercial basis. The Federal Government has much to be proud of in connection with this group of services, and while doubtless many improvements in management are possible, it is believed that a careful study would justify larger rather than smaller outlays with a view to better and more adequate service.

The states and cities carry on many commercial enterprises, including various public utilities, and with varying degrees of success.

(c) Under the developmental functions of government there are five sub-headings. (1) Public education is carried on mainly by the states, municipalities and private agencies, the Federal Government assuming comparatively small responsibility and incurring small expense. There is great need for research in education and for coöperation among all the agencies concerned, and many believe that the Federal Government should do a great deal more in this direction than it does. (2) Public recreation is aided by the Federal Government through the maintenance of national parks, which have also an educational value; this function, however, is exercised almost wholly by state and local governments. (3) "Providing those legal and administrative conditions in which private business will be conducted in a just and equitable manner," covers a wide

range of governmental activity, both federal and state. The supervision of banking by the Treasury, the work of the Federal Trade Commission, regulations regarding interstate commerce, some of the activities of the Post Office Department and the Department of Justice, are all included under this head. Generally the states exercise local jurisdiction, the Federal Government concerning itself with interstate and foreign business. (4) Investigation and control of public utilities is very largely the function of the separate states, except that for the railroads of the country it has come to be largely a federal function. The Federal Government coöperates to some extent with the states in studying the many problems of the other public utilities. When private companies render a public service for which the public pays the entire cost plus a profit to the company, the public should have suitable standards for judging the quality of the service and should know whether the business is conducted efficiently. Otherwise there is no protection to the public and great probability that in many cases it will not be so conducted. The problems are much the same in all the states and cities, and can be studied coöperatively to great advantage. The commercial companies have their associations for mutual benefit and coöperation, and the states have their readiest means of coöperation with one another through the Federal Government. This is one of the greatest opportunities for usefulness to the people, and ought to be improved far more than it ever has been. (5) Developing the resources and wealth of the state and coöoperating with the industries in research and standardization is one of the most important functions of the Federal Government. Partly for the purpose of developing wealth which can be

taxed, or replacing by constructive service the wealth which is absorbed by the government in taxes; and partly for the purpose of benefiting society and strengthening the state, this work should be developed and extended. It is like good seed to a farmer, which yields large returns on its extra cost, and without which the best success is impossible.

It thus appears that these functions of the Federal Government which are developmental as distinguished from governmental are susceptible of great extension, the idea not of control, but of service, being emphasized. Herein lies the possibility of notable advances in popular government without conflicting with the rights or responsibilities of states or municipalities or with private initiative.

The Employment Policy of the Government

How to increase efficiency in the government service is an important question, and nobody is more interested in it than those in the service. The problem is not merely how to reduce expenses, or how to get a cheaper government; but rather how to get the maximum of service and the best government possible for a given expenditure.

The United States Government may be likened to a great business organization of which Congress is the Board of Directors and the taxpayers are the stockholders. It is a great coöperative undertaking for the benefit of all the citizens of the United States, and it suffers some of the difficulties of coöperative undertakings. The various departments, bureaus, and other branches of the government are managed by secretaries, directors, division chiefs and various assistants, the chief executive officer over all being the President. There are altogether several thousand men in responsible administrative posi-

tions in the government's complex organization who are concerned with problems of administration and business management, and who at the present time are specially interested in the improvement of the employment policy of the government. There are several hundred thousand employes of the government who are not only interested in this question, but vitally concerned, and are calling the attention of Congress and the public to the fact that the government's employment policy needs revision and bringing up to date.

In the government service, even more than in private business, administration should be reasonable and just, and administrators competent and efficient. Officers should be held responsible for results and should be given sufficient authority and means to work with, so that there can be no excuse for failure or for inefficiency. The question, therefore, is:—What changes in the employment policy of the government should be made in order that the government service may be put on a very high plane, that it shall offer so attractive a career that able men and women may be secured and the best retained in the service, and that it shall rank with the very best organizations anywhere in the integrity, ability, and efficiency with which it is conducted? There is very much in the government service now to be proud of, more than many people think. But there are serious handicaps to efficiency which can be removed, and the government's haphazard employment policy is one of them.

The administration of the Civil Service on the merit system, free from patronage and politics, has been steadily extended until it covers a very large part of the Federal Government. In this extension the Civil Service

TABLE 15

MISCELLANEOUS EARNINGS, FEES AND CREDITS FOR SALE OF PROPERTY
CIVIL ACTIVITIES OF U. S. GOVERNMENT

FISCAL YEARS 1910-1919

Group I—Primary Governmental Functions

Fiscal Year	Legislative	State	Treasury—Customs	Treasury—Miscellaneous	Interior—Patent Office
1910.....	\$185,424	\$1,662,659	\$737,866	\$519,437	\$2,019,541
1911.....	182,576	1,666,069	3,603,551	516,778	1,976,064
1912.....	235,505	1,729,243	1,629,683	513,865	2,076,400
1913.....	354,837	1,845,006	1,826,616	634,444	2,077,142
1914.....	231,065	1,987,829	1,232,515	690,709	2,168,516
1915.....	271,712	1,512,595	998,484	651,247	2,265,486
1916.....	479,383	1,524,972	1,280,230	1,044,688	2,329,510
1917.....	601,658	1,561,781	1,176,346	1,752,632	2,315,647
1918.....	378,779	1,336,127	973,496	3,201,909	2,100,947
1919.....	360,608	1,311,386	1,640,181	4,193,640	2,092,771
Total.....	\$3,281,547	\$16,137,667	\$15,098,918	\$13,719,349	\$21,852,024
Fiscal Year	Interior—Indian Service	Interior—Miscellaneous	Agriculture	Commerce	Labor
1910.....	\$91,392	\$2,640,218	\$15,335	\$224,611	\$4,488,095
1911.....	5,839,828	2,110,604	21,124	230,734	4,049,241
1912.....	892,732	1,727,240	22,405	221,815	3,609,149
1913.....	586,062	2,707,322	22,326	238,527	5,207,062
1914.....	235,127	2,398,349	35,604	672,894	5,673,566
1915.....	718,474	2,157,838	68,247	252,907	1,797,125
1916.....	191,674	2,359,466	78,913	306,038	1,213,829
1917.....	338,558	2,179,552	104,098	262,226	1,326,942
1918.....	338,670	1,806,703	101,754	224,300	1,606,871
1919.....	677,911	1,777,352	328,291	362,951	1,589,980
Total.....	\$9,909,728	\$21,864,644	\$798,097	\$2,997,003	\$30,561,860
Fiscal Year	Judicial	District of Columbia	Panama Canal Maintenance	Miscellaneous Commissions, etc.	Total Group I
1910.....	\$999,310	\$7,498,953	.....	\$88,980	\$21,172,238
1911.....	1,048,008	7,679,526	.....	207,382	29,232,773
1912.....	1,615,348	8,644,468	.....	159,797	23,079,276
1913.....	1,385,125	9,117,612	.....	152,816	26,159,972
1914.....	1,356,546	9,003,290	.....	148,935	25,837,447
1915.....	1,110,967	9,790,474	\$3,900,423	2,321,833	27,819,280
1916.....	1,921,538	10,176,741	2,869,995	1,794,297	26,872,754
1917.....	1,105,897	10,170,424	6,150,669	1,045,973	30,109,798
1918.....	1,503,731	10,960,828	6,347,994	1,627,931	32,541,865
1919.....	2,041,858	11,960,118	6,777,047	2,751,479	37,880,893
Total.....	\$13,388,268	\$95,002,434	\$26,046,128	\$10,298,823	\$280,656,236

TABLE 15—(*Continued*)

Group II—Research, Education, Development

Fiscal Year	Agriculture-II	Interior-II	Commerce-II	Miscellaneous Education—Welfare	Total Group II
1910.....	\$2,127,130	\$5,069	\$174,551	\$181,706	\$2,488,455
1911.....	2,034,535	22,563	430,283	200,151	2,687,532
1912.....	2,174,342	33,414	428,633	203,077	2,839,466
1913.....	2,485,730	26,764	182,163	254,691	2,949,349
1914.....	2,511,568	38,505	106,525	241,550	2,898,148
1915.....	2,554,092	34,200	13,259	281,758	2,883,309
1916.....	2,951,092	39,678	80,824	337,732	3,409,326
1917.....	3,629,000	41,049	195,610	338,171	4,203,830
1918.....	3,675,756	15,832	105,815	351,811	4,148,714
1919.....	5,011,211	18,168	309,803	310,240	5,649,422
Total.....	\$29,154,456	\$274,742	\$2,027,466	\$2,700,887	\$34,157,551

Commission has been an effective agency, in spite of a serious handicap arising from an insufficient personnel. The commission has ample authority as well as the good-will of administrators and the moral support of the public, and has done a work of immense importance. Nevertheless, it can not be denied that there are serious defects in the Civil Service. The standard of the personnel in many cases is not what it should be, the quantity and quality of work done is frequently unsatisfactory, experienced and competent men and women leave the service in large numbers, and their places are taken by others, on the average less experienced and less competent. Owing to an inadequate and irrational salary scale, many branches of the government service are so unremunerative and unattractive that their administrative officers have much difficulty in keeping positions filled. Under such circumstances it is impossible to maintain proper discipline or a high standard of efficiency, and the consequences of a lowered morale are

plainly evident. The situation is far more serious than it was two years ago when Congress appointed a special commission to study and report upon it.

LEGAL DIFFICULTIES

The merit system presupposes an honest, unbiased, and competent administration of the personnel; appointments without favor, promotions when earned, security of tenure, opportunity to make good, recognition of work well done. The government should be a just and reasonable employer, if not indeed a model employer, and the administrative officers of the government should not only be authorized and required to deal justly and equitably by the employes under their supervision, but they should be empowered to do so. In general, this is far from being realized, and the greatest handicap to good administration is not in the faults and frailties of administrative officers (serious as they may be in some cases) but in the laws and limitations imposed upon the administrators, which tie their hands and

make good administration exceedingly difficult; and in the lack of adequate personnel in the Civil Service Commission, which makes it impossible for it to coöperate with administrators as effectively as it should, or to exercise the supervision over appointments and promotions which the law contemplate and which administrators would welcome.

The most serious of these legal difficulties are the following:

(1) The system of statutory positions with inflexible and generally inadequate salaries, which often make appointments and promotions difficult or impossible.

(2) Unequal salaries in different branches of the service for a given kind of work and degree of responsibility.

(3) The legal prohibition of transfer and promotion from a position in one department to a lump-sum position in another at a higher salary, no matter how much such promotion is merited or how strongly it is

recommended by the administrative officers concerned.

(4) The legal restriction requiring three years' service before transfer from one department to another in Washington.

(5) The apportionment system which often makes it impossible to appoint the most competent eligibles, and sometimes rules out all the applicants from several states.

(6) The entire lack, until very recently, of a retirement system for aged or disabled employees, which made it necessary to retain thousands who under other conditions would have been retired to the advantage of the service.

STANDARDIZED CIVIL SERVICE

The need for improvement has long been recognized and the commission appointed by Congress made a thorough study of all phases of the situation and a very complete report, and drafted a bill embodying its recom-

TABLE 16

AVERAGE ANNUAL EXPENDITURES AND CREDITS OF DIPLOMATIC AND CONSULAR SERVICE OF STATE
DEPARTMENT—FISCAL YEARS 1910-1920
For 7 Pre-war Years, 3 War Years, and 1920

	Average 1910-1916	Average 1917-1919	1920
<i>Expenditures</i>			
Salaries of Ambassadors and Ministers	\$517,796	\$469,365	\$491,978
Salaries of Secretaries, Clerks, Interpreters	261,848	514,002	897,482
Salaries of Consular Service	1,063,909	1,122,377	1,303,117
Salaries of Clerks, Assistants, Marshalls, Interpreters	385,312	713,836	1,109,430
Post Allowances to Embassies and Consulates . . . . .	.....	359,767	572,404
Contingent Expenses, Emergencies and Transportation	947,778	2,044,720	4,119,161
Various International Bureaus, Institutes and Commissions	774,517	675,956	648,145
Total Expenditures	\$3,951,160	\$5,900,023	\$9,136,717
<i>Credit</i>			
Consular Fees, Sale of Property, etc.	\$1,666,979	\$1,310,456	\$1,885,602
Net Expenditures	\$2,284,181	\$4,589,567	\$7,251,115

TABLE 18

GOVERNMENTAL REVENUE RECEIPTS AND COST PAYMENTS OF U. S. MUNICIPALITIES OF OVER 30,000 POPULATION

	1910	1911	1912	1913	1915	1916	1917	1918
Total Population	27,316,407	28,559,142	29,320,579	30,194,677	\$1,168,160	\$2,267,415	\$3,259,766	\$4,326,669
Revenue Receipts								
Taxes—Property, Poll, Business License, etc.	\$524,879,619	\$552,798,570	\$582,006,121	\$596,708,796	\$641,972,948	\$695,106,895	\$742,320,878	\$790,577,487
Special Assessments—for Outlays	66,395,107	68,509,773	71,685,270	72,476,119	79,890,321	74,008,766	83,195,596	72,673,785
Grants, Fines, Gifts, Pension Assessments	37,242,784	41,496,176	43,039,246	43,729,349	44,344,280	45,835,551	48,778,549	52,240,559
Earnings of General Departments	15,200,254	17,270,578	20,056,524	21,187,056	22,547,201	24,485,840	26,590,328	29,526,180
Highway Privileges		11,029,567	12,327,793	12,572,643	15,069,314	18,898,573	14,057,647	15,796,393
Rents	8,904,880	5,662,807	8,867,716	9,035,519	11,886,954	10,863,230	11,986,302	12,558,024
Interest on Amortization Investments	24,122,329	23,536,087	24,259,721	24,445,052	28,715,919	30,713,181	32,479,059	34,247,936
Earnings of Public Service Enterprises	83,197,472	85,416,575	85,174,713	86,572,596	96,538,379	99,797,175	106,158,783	116,494,045
Total Receipts	\$759,942,445	\$805,720,133	\$849,037,104	\$866,277,110	\$940,385,311	\$994,710,241	\$1,065,537,142	\$1,124,094,809
Expense Payments								
Expenses of General Departments:								
General Government: Legislative, Executive, Legal, etc.	\$53,402,487	\$53,734,440	\$59,717,194	\$60,510,314	\$65,456,987	\$87,663,976	\$72,489,108	\$73,447,354
Protection: Police, Fire Department, Inspection	111,932,648	110,822,753	116,839,112	118,328,740	127,510,291	132,160,463	135,634,803	145,624,216
Conservation of Health	9,059,173	8,916,084	10,354,176	10,578,763	12,635,565	13,922,389	15,945,361	17,590,943
Sanitation	35,271,383	38,652,454	41,588,433	42,353,938	45,836,906	47,374,904	48,506,528	54,223,701
Highways: Street Repair, Maintenance and Lighting	54,778,117	55,879,142	58,087,116	59,197,773	65,509,983	63,864,106	66,818,268	70,764,177
Charities: Hospitals, Corrections	29,621,797	31,321,703	33,231,282	33,608,341	39,397,505	43,274,019	45,341,759	50,886,090
Education: Schools, Libraries	133,538,813	141,455,032	150,612,942	157,419,877	181,590,445	193,825,865	204,591,462	225,211,252
Recreation: Parks, Playgrounds	16,108,808	17,617,447	18,774,809	19,184,453	21,388,597	21,637,097	22,206,739	24,190,527
Miscellaneous: Pensions, etc.	5,511,063	1,808,306	1,826,714	6,878,620	2,984,730	2,450,547	3,034,910	7,041,611
General		12,450,294	14,576,208	14,665,627	16,095,777	16,879,710	18,882,281	21,174,412
Total General Departments	\$449,209,789	\$471,657,660	\$508,543,048	\$522,666,446	\$578,206,186	\$603,000,076	\$634,345,219	\$690,160,283
Interest on Indebtedness	92,847,248	101,492,215	107,816,353	109,684,123	128,526,868	133,046,560	140,520,933	148,997,029
Outlays: Construction, Permanent Improvements	279,145,899	316,079,329	303,481,467	310,823,002	329,585,561	287,558,668	286,529,990	278,363,437
Public Service Enterprises	34,386,256	36,106,193	39,392,393	40,968,118	43,822,511	44,636,007	46,625,421	55,174,480
Total Expense Payments	\$855,599,192	\$925,335,398	\$930,233,261	\$934,141,689	\$1,089,141,126	\$1,068,301,311	\$1,108,021,563	\$1,172,695,829

CONDENSED STATEMENT OF EXPENSES, EARNINGS, AND TAX REVENUE

Expenses								
Expenses of General Departments	\$149,219,789	\$147,657,660	\$508,543,048	\$522,666,446	\$578,206,186	\$603,000,076	\$634,345,219	\$690,160,283
Net Interest—Payments less Receipts	68,724,919	77,956,128	83,556,632	85,239,091	99,810,949	102,333,379	108,041,876	114,749,803
Outlays: New Construction, etc.	279,145,899	316,079,329	303,481,467	310,823,002	329,585,561	287,558,668	286,529,990	278,363,437
Total Cost Expense	\$707,090,607	\$868,693,117	\$895,581,147	\$918,728,539	\$1,007,002,696	\$992,952,123	\$1,028,917,085	\$1,083,273,523
Earnings								
General Earnings, Fees, Fines, Rents, etc.	61,347,918	75,459,198	85,311,279	86,074,507	93,347,749	95,083,224	101,382,826	110,101,156
Earnings from Public Service Enterprises, less Expenses	48,811,216	49,810,381	45,782,920	45,604,478	42,735,865	55,161,168	59,533,362	61,320,165
Total Earnings	\$110,159,134	\$124,769,509	\$181,093,599	\$131,079,045	\$145,983,617	\$150,244,392	\$160,916,188	\$171,421,321
Net Expense—Cost Expense less Earnings	\$686,931,473	\$743,923,608	\$764,497,549	\$787,049,494	\$801,019,079	\$842,707,731	\$868,000,897	\$911,852,202
Tax Revenue								
Net Taxes	\$524,879,619	\$552,798,570	\$582,606,121	\$596,708,796	\$641,972,948	\$695,106,895	\$742,320,878	\$790,577,487
Special Assessments	66,395,107	68,509,773	71,685,270	72,476,119	79,890,321	74,008,766	83,195,596	72,673,785
Total Tax Revenue	\$591,274,726	\$621,908,349	\$654,291,591	\$669,184,915	\$721,863,264	\$709,110,061	\$825,516,474	\$863,251,272
Deficit—Net Expense less Tax Revenue*	95,656,747	122,615,263	110,196,157	117,864,579	159,755,815	73,591,070	42,484,423	48,600,930
Total	\$686,931,473	\$743,923,608	\$764,497,549	\$787,049,494	\$861,019,079	\$842,707,731	\$868,000,897	\$911,852,202
Per Capita Net Expense	\$25.18	\$26.04	\$26.06	\$26.05	\$27.63	\$26.12	\$26.10	\$26.55
Per Capita Tax Revenue	\$21.64	\$21.76	\$22.32	\$22.16	\$23.16	\$23.84	\$24.82	\$25.14

* The deficit is represented by the net increase of indebtedness plus or minus the change in cash balances.

Data from Bureau of Census, Statistical Abstracts of Cities. No data available for 1914.

The data for 1919 became available too late to be inserted in this table. The principal items for that year are: Cost Expense, \$1,128,816,185; Earnings, \$176,228,516; Net Expense, \$952,587,669; Total Tax Revenue, \$943,588,548; Per Capita Net Expense, \$27.48; Per Capita Tax Revenue, \$27.22.

TABLE 17
AVERAGE ANNUAL EXPENDITURES AND CREDITS OF U. S. JUDICIARY
FISCAL YEARS 1910-1920
For 7 Pre-war Years, 3 War Years, and 1920

	Average 1910-1916	Average 1917-1919	1920
<i>Expenditures</i>			
Salaries of Judges—Supreme, Circuit and District Courts	\$1,084,467	\$1,228,806	\$1,450,514
Salaries, Fees and Expenses of Marshalls	1,479,496	1,673,497	2,216,196
Salaries and Expenses of District Attorneys, Assistants, etc.	1,112,261	1,174,766	1,848,602
Fees of Clerks and Commissioners	405,944	490,629	1,358,046
Fees of Jurors	1,050,530	1,113,136	1,229,347
Fees of Witnesses	1,059,830	1,092,759	1,176,202
Pay of Bailiffs and Miscellaneous Expenses of U. S. Courts	855,050	751,930	911,349
Support of Prisoners—U. S. Courts	572,267	701,034	1,431,778
U. S. Penitentiaries	620,594	1,095,303	2,141,157
Courts of Customs, Claims, Supplies, Rent, etc.	418,058	356,355	368,150
Total Expenditures	\$8,658,497	\$9,678,215	\$14,126,341
<i>Credits</i>			
Judicial Fees and Costs	\$234,508	\$213,030	\$628,412
Judicial Fines, Penalties, and Forfeitures	721,160	1,028,310	2,449,533
Alaska Fund and Game Licenses	236,355	255,252	218,122
Unclaimed Money, Sale of Property, etc.	56,097	53,883	45,300
Total Credits	\$1,248,120	\$1,550,475	\$3,336,367
Total Net Expenditures	\$7,410,377	\$8,127,740	\$10,789,974

mendations.⁸ More recently a second bill has been introduced by Chairman Lehlbach of the Committee on Civil Service Reform of the House, based upon the commission's report but with some important modifications.

If the proposed classification of the Civil Service is effected, so that there will be a standardized system of positions and titles, with systematic specifications of qualifications and duties, and salaries that are uniform through-

out the service for comparable duties and responsibilities, then it would be possible to dispense with the present inflexible statutory positions and the unrestricted and unstandardized lump-fund positions and replace both by the new standardized and classified system of positions, which would be defined and authorized by law. This would do away with the first two of the above-named legal limitations, and remove the reason for the third and fourth, which could then be repealed.

It is probably too much to expect that the fifth difficulty can be entirely removed, although more active recruiting of eligibles from states below their quota would furnish better mate-

⁸ This bill, known as the Jones bill, was introduced in the Senate by the Chairman of the Commission in March, 1920. The "Report of the Congressional Joint Commission on Reclassification of Salaries" (*House Document 686*, 66th Congress, 2d Session) was presented on March 12, 1920.

THE ANNALS OF THE AMERICAN ACADEMY

TABLE 19
REVENUE RECEIPTS AND GOVERNMENTAL COST PAYMENTS FOR ALL STATE GOVERNMENTS

	1915	1916	1917	1918	1919
<i>Population (estimated as of Jan. 1)</i>	98,396,733	100,052,390	101,809,990	103,423,405	105,082,600
<i>Revenue Receipts</i>					
Taxes—Property, Poll, License, etc.	\$365,543,707	\$363,968,553	\$409,864,898	\$459,774,245	\$527,819,167
Special Assessments—Charges for Outlays	2,268,517	2,865,082	3,259,196	3,097,109	4,408,216
Grants, Fines, Donations, Pension Assessments	9,410,609	15,424,841	18,975,866	15,258,958	19,967,049
Earnings of General Departments	50,922,748	53,844,692	62,531,781	72,543,618	83,203,459
Highway Privileges	1,249	20,922	11,042	10,637	68,452
Rents from Investment Properties	5,963,942	5,225,192	6,223,516	7,422,286	7,643,943
Interest on Investment Funds, etc.	22,105,396	23,156,092	25,394,714	26,931,108	28,800,769
Earnings of Public Service Enterprises	2,716,339	2,437,774	2,633,720	3,267,690	3,306,147
Total Receipts	\$358,232,597	\$466,946,718	\$522,924,733	\$588,305,651	\$675,217,202
<i>Expense Payments</i>					
Expenses of General Departments:					
General Government: Legislative, Executive, Legal, etc.	\$44,508,417	\$47,152,759	\$45,414,183	\$51,395,182	\$52,151,603
Protection to Person and Property	26,294,691	27,811,975	30,297,595	33,218,935	34,102,524
Conservation and Development of Natural Resources	16,558,685	19,399,756	18,998,976	21,633,972	24,359,455
Conservation of Health and Sanitation	9,453,673	9,894,943	11,256,898	12,249,333	14,408,578
Highways—Repair and Maintenance	22,767,706	29,213,892	33,630,777	38,828,799	61,628,466
Charities—Hospitals, Corrections	94,057,827	103,453,762	118,084,025	134,056,498	134,056,498
Education—Schools, Libraries, Colleges	147,164,247	153,825,748	161,292,951	164,452,243	184,492,850
Recreation, Parks, Monuments	878,646	992,890	1,091,387	1,248,094	1,211,967
General—Pensions and Miscellaneous	22,214,569	21,887,923	20,912,903	32,851,140	36,254,200
Total General Departments	\$379,030,094	\$404,236,243	\$426,329,432	\$473,961,723	\$542,661,141
Interest	18,545,955	19,253,866	21,153,061	23,078,847	24,079,806
Outlays—Permanent Construction and Improvements	95,192,759	85,068,206	67,910,847	66,142,964	71,145,492
Public Service Enterprises	2,138,236	1,581,284	2,109,880	2,302,403	2,516,755
Total Expense Payments	\$394,907,084	\$510,134,939	\$517,503,220	\$565,485,937	\$640,403,134

SUMMARY OF NET EXPENSES, EARNINGS, AND TAX REVENUE (OF ALL STATE GOVTs.)

	1915	1916	1917	1918	1919
<i>Expenses</i>					
General Expenses	\$404,236,243	\$426,329,432	\$473,961,723	\$442,661,141	
Outlays	85,063,906	67,910,847	66,142,964	71,145,432	
Total	\$474,222,893	\$489,299,449	\$494,240,279	\$540,104,687	\$613,806,573
<i>Earnings</i>					
General Earnings, Fees, Fines, Rents, etc.	65,598,548	74,515,647	81,742,205	95,235,499	110,882,903
Earnings of Public Service Enterprises	578,103	856,490	523,840	965,287	789,392
Net Interest—Receipts less Payments	3,559,441	3,902,526	4,241,653	3,852,261	4,720,963
Total	\$69,736,092	\$79,274,663	\$86,507,698	\$100,053,047	\$116,393,258
<i>Net Expense</i> —Expenses less Earnings	\$404,486,801	\$410,024,786	\$407,732,581	\$440,051,640	\$497,413,315
<i>Tax Revenue</i>					
Taxes	\$365,543,797	\$363,968,553	\$409,864,898	\$459,774,245	\$527,819,167
Special Assessments	2,208,517	2,868,682	3,289,196	3,097,109	4,408,216
Total Tax Revenue	\$367,812,314	\$366,837,235	\$413,154,094	\$462,871,354	\$539,927,383
<i>Deficit or Surplus</i> —Net Expense less Tax Revenue**	36,674,487	43,187,551	-5,421,513*	-22,819,714*	-34,814,068*
Total	\$404,486,801	\$410,024,786	\$407,732,581	\$440,051,640	\$497,413,315
Per Capita Net Expense	\$4.11	\$4.10	\$4.00	\$4.25	\$4.73
Per Capita Tax Revenue	\$3.74	\$3.67	\$4.06	\$4.48	\$5.06

* Surplus.

** The deficit is represented by the net increase of indebtedness plus or minus the change in cash balances.

Data from Bureau of Census, *Financial Statistics of States*.

rial and so satisfy the apportionment law without lowering the standards of the service as much as otherwise. The tendency of the apportionment system is necessarily to lower the service in Washington, because very often the best men in distant states can not afford to come to Washington at considerable expense, in view of the inadequate salaries paid by the government. The result often is that inferior men who need a job are certified from distant states and are appointed ahead of abler men from nearby states that have their full quota. Active recruiting by representatives of the Civil Service Commission in those more distant states would perhaps go far toward remedying the difficulty, but it would involve some expense.

The last difficulty mentioned, that is, lack of a retirement system, has lately been partially met, although compulsory retirement on \$30 to \$60 per month, according to length of service, is not an attractive proposition in the higher grades of the service, especially when it is learned that the salary deductions (to be credited to the pension fund) are proportional to the salary, but the benefits are not. For example, the deductions for a \$4,800 position are four times as much as for a \$1,200 position, but the retiring allowance is no more than for the latter position.⁹

If, through the adoption of a budget system or otherwise, funds are made available so that adequate salaries can be paid and promotions can be made systematically and without undue delay, and work can be planned ahead and carried out consecutively by those

⁹ So far as the higher positions are concerned, therefore, the retirement law offers no incentive for entering the government service, but is one more reason for increasing salaries. For the deductions from salary, coming after so many increases in the cost of living, are in many cases like the straw that breaks the camel's back.

who plan and begin it and not be interrupted frequently by a changing personnel, the most serious handicaps to efficiency will be removed and a long step forward in good government will have been taken. One of the greatest handicaps to good administration is the lack of inducement for a career, arising from inadequate salaries for administrative and technical positions in nearly all branches of the government service. Adequate salaries which would be an incentive for the best to remain in the service of the government would be of great value to the service, and would remove many difficulties arising from inexperienced men filling responsible positions. With an excessive turnover in the personnel, including administrative officers, mistakes in administration are to be expected. It is no more possible to operate an important department of the Federal Government satisfactorily with a large proportion of inexperienced officers and employes than it would be to operate a bank or a great mercantile establishment successfully with inexperienced officers and employes. The wonder is in some cases that the government departments do as well as they do. Many men of ability and experience are serving the government at salaries below a living wage. But the losses to the service due to resignations of such men in responsible positions are very serious and the situation is steadily growing worse. Paying low salaries to men in important administrative positions leads to inefficiency and waste rather than to economy.

FUNCTION OF CIVIL SERVICE COMMISSION

The function of the Civil Service Commission as an employment agency is to be of maximum service to the executive departments in filling positions and administering the personnel.

In addition to safeguarding the interests of the public and of the employees by keeping the service free from the effects of politics and favoritism, it is able to render great assistance to administrative officers by finding men and women who are qualified for the various positions to be filled, taking full account of the needs of the service and of the importance in many cases of special training and experience. In the case of supervisory and technical positions, administrative officers and their trained assistants who know the requirements of the work and the qualifications needed, and who are responsible for the results obtained, are given a large measure of authority as well as of responsibility in making appointments and promotions. The Civil Service Commission should, however, be closely in touch with the bureaus and departments and should be so well manned and so well acquainted with the needs of the service that it can advise, or overrule if necessary, intelligently and sympathetically. The experience of the Civil Service Commission shows that administrative officers as a rule welcome its assistance and advice when they can deal directly and can understand one another. Difficulties, when they occur, are generally caused by lack of understanding from lack of contact. Prompt and efficient administration is important; excessive formality and routine, involving serious delay and unnecessary expense, should be avoided.¹⁰

PROMOTION ON MERIT

One of the greatest handicaps to efficiency in the government service is the inability frequently to promote men when they deserve promotion.

¹⁰ It is generally considered in the executive departments that the Lehlbach bill is to be preferred to the Jones bill in this respect.

Promotions are made in recognition of increased earning power and to avoid losing employes through resignation. The government is in competition with business and educational institutions both in appointing and holding its employes. In most cases it pays relatively low salaries for special qualifications, and imposes conditions as to hours of service and limitations as to one's free time which are often a real hardship.¹¹ Moreover, men in the scientific and technical branches of the government service acquire information and training of great value in the business and educational world, and they are eagerly sought for at a much higher rate of compensation. This is one of the most serious obstacles to efficiency and success in the government service and must be faced squarely if the government's work is to be conducted on a high plane.

It is not expected ever to have salaries so high in the government service that such a flow of able men out into commercial and educational work would be prevented. Indeed, it is not desirable to try to prevent it altogether. But enough good salaries should be provided so that a reasonable proportion, at least, of able and experienced men could be retained, to serve as

¹¹ Scientists and engineers in the service of the government work six days a week, eleven months in the year or more, often putting in a great deal of overtime without extra pay, and are restrained from accepting retainers or extra compensation from outside sources which would be perfectly proper in private employment. The absence of Sabbatical years and of the retiring pensions of the colleges are a further deterrent to men of standing from entering the government service from the colleges. These facts in conjunction with the inadequate salaries of the government explain why it is generally impossible to recruit the higher positions from the colleges, and why administrators are so anxious to retain able and successful men who have been trained in the government service, and why it is so important to be able to select good material for the entering grades and to promote men as they develop.

administrators and educators to the rising personnel. In many cases the work is so important or so technical that only men of special training and considerable experience are competent to undertake it. In these cases the salaries should be such as to make it possible to build up and maintain an able and experienced staff. The needs of the government service should be the first consideration. Training men for the industries should be incidental. The present inadequate salary scale in many departments leads to resignations in a great many cases just when the men are becoming really useful. This makes the work unsatisfactory and its costs excessive. It is one of the most important causes of inefficiency in the government service.

The United States Government is the greatest business organization in the country. It employs in the executive departments more than half a million men and women in hundreds of different kinds and grades of work and carries on a business which is not only larger but more complex than any other in the country. It ought to pay generous salaries, and employ the ablest executives, not only at the head of the various bureaus but all along the line. Such a policy would pay not only in the better quality of work done but in the reduced cost of the work.

That the scale of salaries is inadequate in most cases is proved by the rapidly changing personnel and the difficulty of filling positions. It is a by-word among business men and in the colleges that the government service offers little inducement for ambitious men, except as a stepping stone to something outside the government service. Nevertheless, the responsible administrative and technical officers who conduct the various branches of the executive departments of the government represent collectively more of

ability, integrity and loyalty than they are commonly given credit for. They realize more fully than may be supposed the defects and inefficiency of the government service, although these are often grossly exaggerated in the press and on the platform. They also realize the tremendous handicaps to efficiency that are beyond their control, and which they are fervently hoping may be removed. No private business could succeed with such handicaps as well as the government does, and very many do worse as it is. If the executive departments could have a fair chance for a few years, with a reorganized and standardized civil service system and a budget, they could show the country results which would be both creditable and gratifying. Rearranging the bureaus or reorganizing the departments can not possibly make the government efficient without the more fundamental reorganization of the personnel.

Distribution of Personnel Among the Departments

Much has been said recently about the excessive number of employes in the government service, and the need of drastic reductions. The war had increased the activities of the government in nearly all departments, and it required some time to get back to a peace basis. The number of employes has been considerably reduced during the past few months, but figure 19 shows that on July 31, 1920, the only departments or branches of the service included in the civil groups in this classification that had a relatively large increase over the personnel figures of 1916 were the State and Treasury departments, and these are the departments which have had their activities so greatly increased by the war that this condition could not be avoided. As already explained, the collection of

DISTRIBUTION OF FEDERAL EMPLOYEES 1916 AND 1920

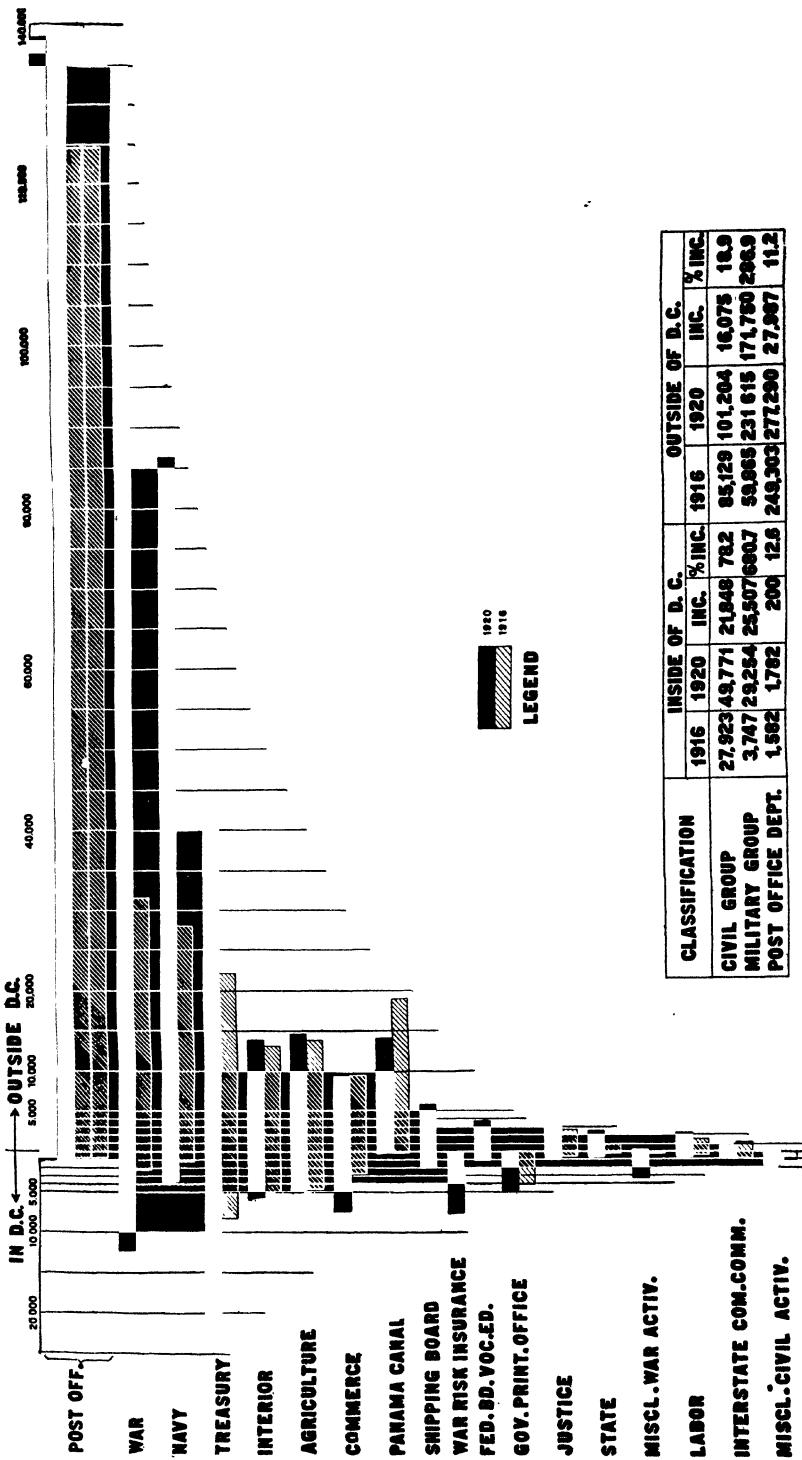


FIGURE 19

This figure shows the distribution of the Personnel in the various departments of the federal Civil Service, in Washington and in the country at large, and the changes in personnel between the years 1916 and 1920.

the revenue has developed into a gigantic undertaking and the increase in that service alone in the Washington office was more than 5,000. In the divisions of loans and currency, the increase was more than 2,000, and in all branches of the Treasury Department (outside of War Risk Insurance) all over the country it was over 32,000. The figures are obtained from the Civil Service Commission and compare the civilian personnel of June 30, 1916 with that of July 31, 1920.

The Post Office Department increased in four years from 250,885 to 279,072, a difference of 28,187 or 11.2 per cent. The War and Navy Departments, War Risk Insurance, Shipping Board, Railroad Administration and other boards included in the military group had increased from 63,612 to 260,869, an increase of 197,257 or 310 per cent. The departments of Treasury, Interior, Agriculture, Commerce, Panama Canal, Government Printing Office, Justice, State, Labor, Interstate Commerce Commission and miscellaneous (taking them in the order given on the figure) increased in the aggregate from 113,052 in 1916 to 150,975, a difference of 37,923 which is 33.5 per cent. Omitting the Treasury and State departments from the list, the civil departments which have had the greatest permanent increase due to the war, all the other civil departments named increased from 81,376 to 84,825, a difference of 3,449 or 4.2 per cent. Meantime the population of the country has increased more than five per cent. That is, all these civil departments and commissions, aside from the two which have had large increases in order to take care of increased war activities, have increased their personnel in four years at a rate less than the rate of growth of the population of the country. The Department of Commerce had an appre-

ciable increase almost entirely due to the decennial census of 1920, which, however, is temporary and many of these extra employes have already gone. On the other hand, the Panama Canal had a decrease of about the same number. Considering the very moderate increases in the expenditures of the civil departments and the considerable increase in the cost of supplies and labor and in the miscellaneous expenses of doing business, it should not be surprising to find so small an increase in the personnel of the civil departments outside of the two exceptions named. It is, however, apparently quite different from the general opinion, and in justice to the departments concerned, it seems worth mentioning.

The Cost of Living and the Purchasing Power of Salaries

During the last eight years there have been great changes in commodity prices and the cost of living and in the general scale of wages, salaries and charges for professional service; and some branches of the government service have readjusted their salaries accordingly. But many could not do so, and the result, taking the government as a whole, is an inconsistent and irrational system that makes a high standard of efficiency and good service practically impossible.

Figure 20 shows the results of investigations by the United States Bureau of Labor Statistics and the National Industrial Conference Board, the latter consisting of representatives of a number of large manufacturing corporations. The curves show the trend of wholesale commodity prices and retail food prices since 1913, and the cost of living as calculated by these two organizations. The cost of living increased during 1920 to more than 200, on the basis of 100 for 1913, and

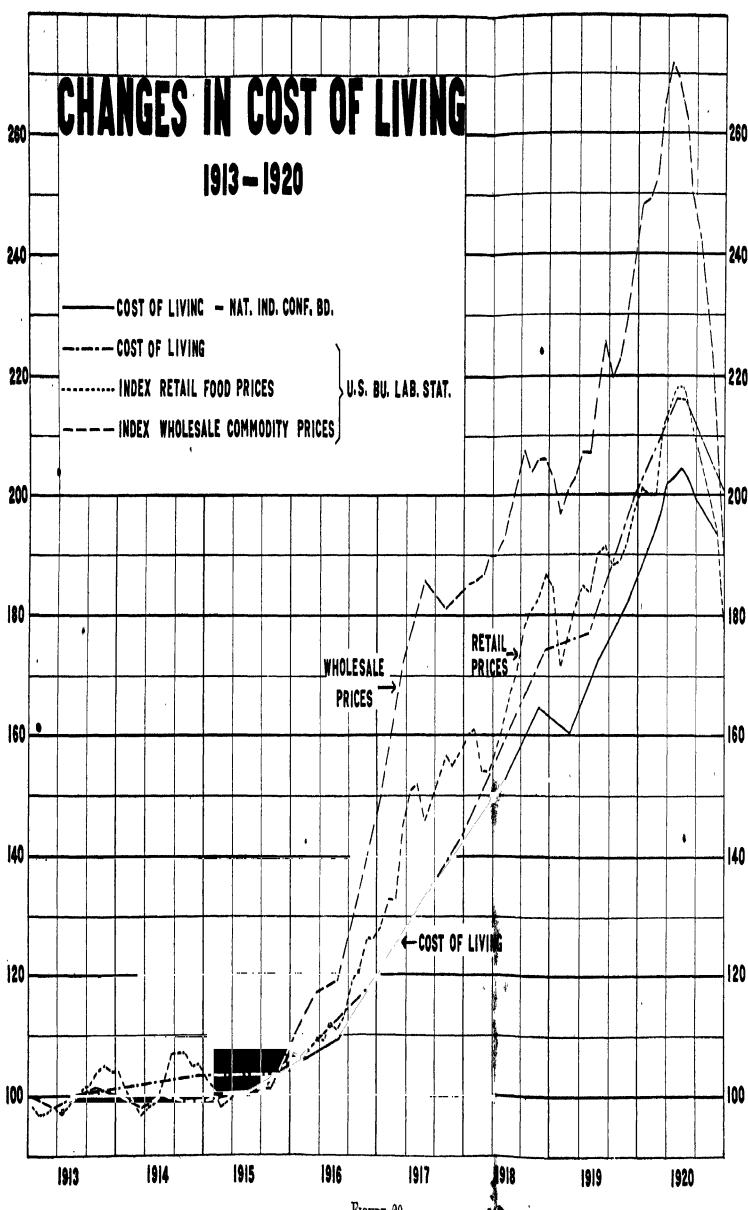


FIGURE 20

This figure represents the changes in the Cost of Living during 1913-1920. The graphs correspond to data from the following sources:

National Industrial Conference Board—*Research Report No. 33*, December 1920, p. 29.

U. S. Bureau of Labor Statistics—*Monthly Labor Review*, February 1920, p. 87; October 1920, p. 65; December 1920, pp. 30, 63; Circular No. 968, January 18, 1921

PURCHASING POWER OF SALARIES 1914-20
PREPARED FROM NATIONAL INDUSTRIAL CONFERENCE BOARD DATA

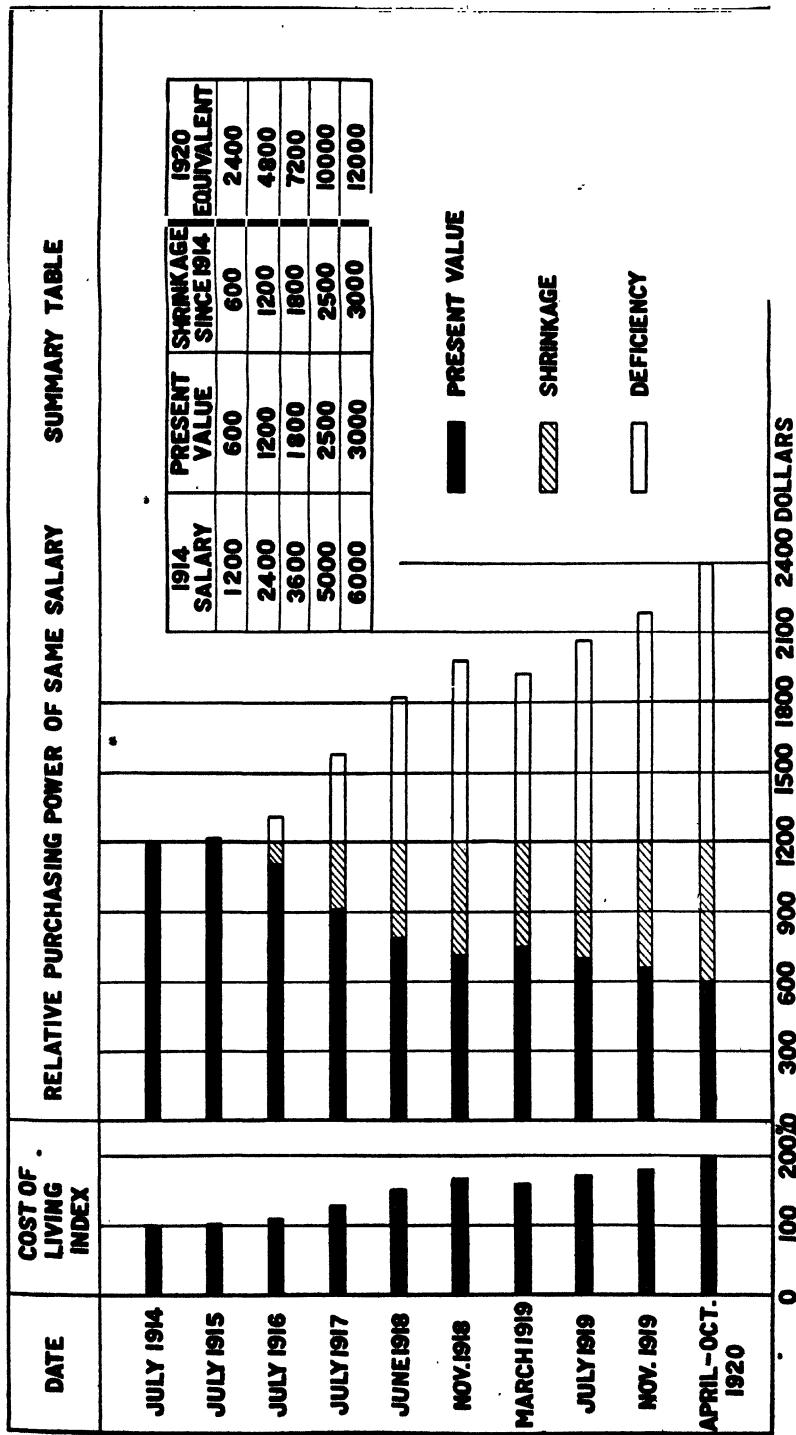


FIGURE 21

This figure represents the change in purchasing power of salaries during the period 1914-1920 as determined by the changes in the Cost of Living. The figure is based on the cost of living data of the National Industrial Conference Board reports. The cost of living figures of the U. S. Bureau of Labor Statistics for the same period are somewhat higher (see Fig. 20) and would accentuate the decrease in purchasing power of salaries shown.

then declined to about 180 by January 1, 1921. There may be further declines in living costs, but there seems little prospect of getting back to the 1913 level or anywhere near it. Nobody proposes a reduction back to pre-war figures of wages or salaries that have already been advanced, although many that have been advanced 100 per cent or more may be reduced. The very moderate advance proposed for government salaries generally will still leave a wide margin between this advance and the relative increase in the cost of living, so that the latter may fall considerably further without falling below the new salary scale.¹²

Living in Washington is still relatively expensive. Houses are scarce and rents are high, and government employes with families find it difficult to live on their incomes. The purchasing power of salaries has fallen greatly since 1913, and still more since 1901 when many government salaries were substantially the same as now. Figure 21 shows graphically how salaries shrank between 1914 and 1920. Although justice and fair play would dictate a readjustment of government salaries, that is not the only reason for urging it, nor is it the strongest reason. If the government could continue to underpay a large proportion of its employes, and could permanently obtain good service at inadequate salaries, and thereby save money and reduce taxes by so much more than would otherwise be possible, that might be regarded as sufficient reason to adopt that policy and keep the wage scale permanently low. But that is

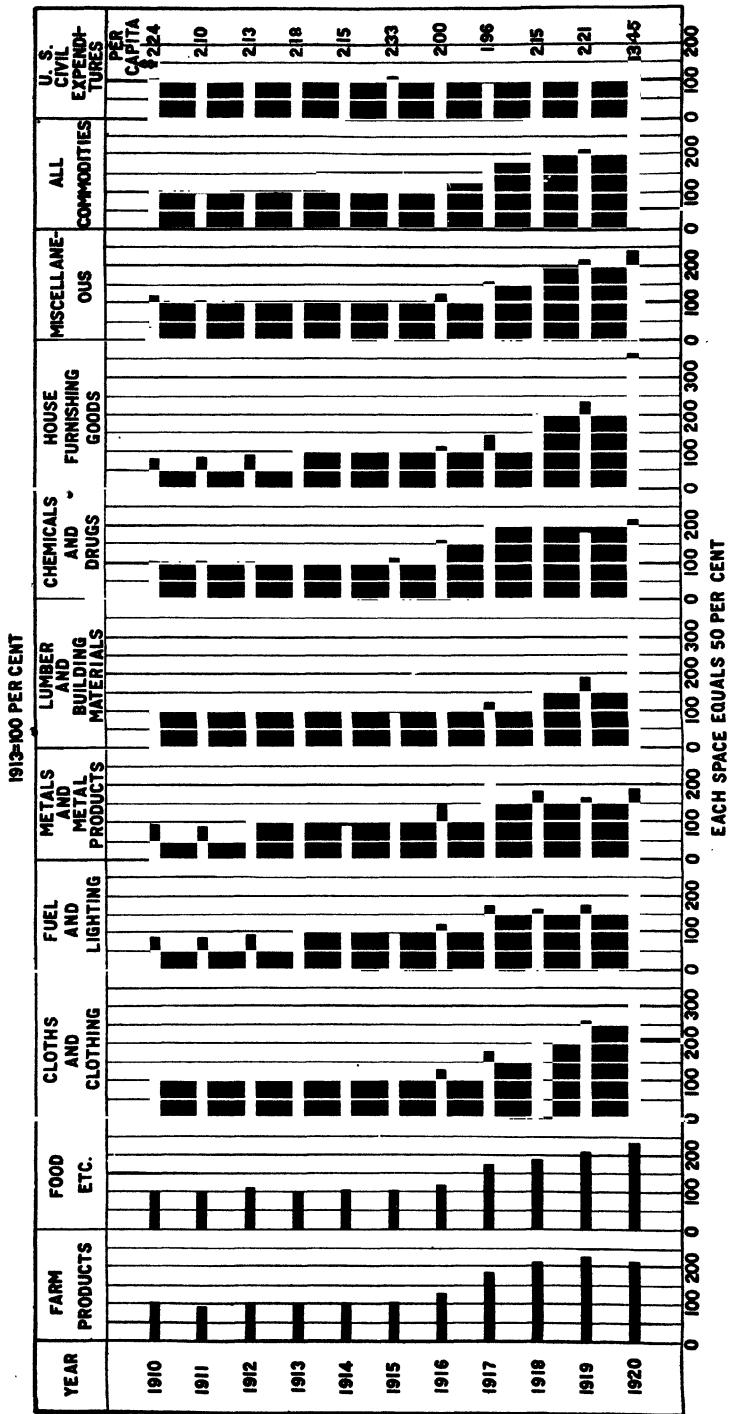
impossible except for a relatively few positions. A limited number of men with independent incomes or without families may always be secured at inadequate salaries, and of course many others who use the government service as a stepping stone to something better.

But a high average of ability and experience can not be maintained without adequate salaries, and for lack of it recently the service has, to a large extent, been demoralized. Discipline and good service are impossible unless men and women are well-paid and contented. Efficiency is impossible without competent and experienced administrators. Low salaries and an excessive turnover in the higher officers is not economy but wastefulness. Giving a bonus of \$240 only to employes with salaries not above \$2,500 per year, and no increase of compensation to those above, assumes either that living costs have not increased to those in the more responsible positions, or that their services are less important and their resignations a less serious loss to the service, or that they have independent incomes to fall back upon, or that they may properly use up their savings laid by for an emergency or for old age, and will willingly do so. These are unwarranted assumptions, and because this problem has not been met the government service in some departments has been seriously crippled, and will take years to recover. It is hoped that the public will take an active interest in this question, and urge that in the interest of economy and efficiency, and good administration, the proposed readjustment of salaries may soon be made.

¹² It is estimated that the average increase in salaries provided by the Jones and Lehlbach bills is about eight or ten per cent above present salaries including the war bonus now paid. Many would get no increases, many would get five per cent or less, and many of those who now get no bonus would get larger percentage increases.

Figure 22 prepared from Bureau of Labor Statistics data gives a comparison of the wholesale prices of commodities for the years 1910-1920, and the net per capita cost of all the civil activities of the government. This shows

WHOLESALE PRICES 1910-20 COMPARED WITH U.S. CIVIL EXPENDITURES



This figure is based on the Wholesale Prices data of the U. S. Bureau of Labor Statistics, *Monthly Labor Review*, February 1920, p. 89, December 1920, p. 63, and material in press January 1921.

FIGURE 22

that while wholesale price levels of commodities on the average more than doubled between 1910 and 1919, the per capita cost of the civil activities of the government varied only slightly from year to year. The relatively large increase in 1920 is principally due to the added work incident to the collection of the increased revenues, to prohibition enforcement, to conducting the decennial census, and to the construction of public highways, although there was some increase due to increased compensation to employes and the further increase in the cost of commodities.

The cost of running any business, including government, aside from capital charges, is made up of the cost of goods (equipment, materials, etc.) and the cost of services (wages and salaries). Since the government paid prevailing market prices for its supplies, the net cost of the civil activities, which include the former, was only maintained at practically pre-war levels up to 1919 by a considerable curtailment of public works construction and of some of the other activities of the government, sufficiently to offset the increased cost of labor and supplies and the considerable expansion, due to the war, in some departments. Attention is especially called to the striking contrast of the cost of doing private business, as shown by the increasing cost of commodities from 1915 to 1919, and the nearly constant per capita cost of the civil activities of the government in those years.

Duplication of Work in the Executive Departments

Much is heard these days about duplication of work by the government departments, and the waste of effort and money caused thereby. It is true that there is not and probably never has been perfect coördination of effort among all the departments. A

well-organized budget bureau, including in its functions the task of keeping in close touch with all the departments and bureaus and assisting them in delimiting their activities and in coöperating with one another, especially where their fields necessarily overlap, would render a very useful and much needed service. It is hoped that in the near future this long-felt want will be supplied and a distinct advance made in efficient government. In the meantime, however, the bureaus and departments are coöperating, in most cases, as well as could be expected under existing circumstances. It is believed that many of the examples of duplication cited are more apparent than real. The Bureau of Efficiency has studied this question, and has diligently sought for cases of serious duplication. But it finds few such cases.

STATISTICAL WORK

One of the most frequently cited examples of the kind is the collection of statistics. It is sometimes suggested that all statistics should be collected by one agency, which would do the work with better facilities and at less cost than the respective bureaus most concerned in the given subject could do it. At present the Interstate Commerce Commission collects statistics about the railroads, the Federal Trade Commission about the subjects it is investigating, the Federal Reserve Board and the Treasury Department about business and fiscal matters, the Bureau of Education about educational activities, the Geological Survey about minerals, the Bureau of Labor Statistics about employment conditions, wages and the cost of living, the Agricultural Department about crops and markets, the Bureau of Foreign and Domestic Commerce about commerce, while the Public Health Service gathers mortality and morbidity statistics and the Bureau of the Census enumerates the

population and gathers statistics about the wealth, taxation and industries of the country and the revenues and expenditures of states and cities.

One might think that here is a case of duplication on a grand scale, and that by having one central agency collect all the statistics and distribute them to the various departments and bureaus concerned, it would be better and more efficiently done. A little consideration will show that this would be exceedingly difficult. Gathering statistics is not a mechanical process merely, nor a task for statisticians working by themselves. In order that the statistics be of value, they must be gathered under the direction of experts of the subjects investigated as well as of experts in statistical work, and frequently only the experts of the respective bureaus concerned know what information is wanted and how it is best obtained. If at the proposed central agency for collecting the information we provide equally competent experts in all these various fields to direct the work and handle the information as it is received, we should have a new kind of duplication, with two sets of experts instead of one, one set to supervise the gathering of the information and the other to interpret and make use of it. That would appear to be a more expensive method and less satisfactory in operation than the present method. For if those who utilize the information supervise its collection, they not only have it more promptly but can get preliminary results from incomplete data and can modify the plans made if it appears desirable, or perhaps stop short of what was first proposed.

A central board with representatives of all the agencies doing statistical work, acting as a coördinating agency to secure the maximum degree of coöperation, and to prevent overlapping and conflict of effort would appear

practicable and highly desirable. The Bureau of Efficiency acts as such a central coördinating agency to some extent, but there might be closer coöperation and probably some consolidation of such work. That is a different thing from one agency taking over and managing all the statistical work of the government, and setting up various staffs of experts which would duplicate those already in existence in the various departments. The statistical work of the government can perhaps be done more efficiently than it is now done, and kept more nearly up to date in some cases. I would not express an opinion on that question. But it appears doubtful if such work could *all* be centralized in a single agency and be better or more economically done than it is at present.

SCIENTIFIC RESEARCH

It has sometimes been supposed that all chemical work could be concentrated in one central agency, instead of having many chemical laboratories. Chemistry in the government service is a means to an end, and not an end in itself. Chemical work must be done where the need arises, in connection with food products in one place, with minerals in another, with gases and explosives in another, with sanitation and health in another, with industrial processes in another, and so on. One could as well concentrate firemen, or watchmen, or stenographers in one department as to concentrate all government chemists in one department.

Examples of apparent duplication in other scientific research are sometimes pointed out. Some real cases have, indeed, been corrected, and probably some still exist. But it is believed by those well informed on the subject that the number of cases of improper duplication of scientific research in the government service is relatively small. It will undoubtedly be further reduced

by the better coöperation and coördination of effort which a budget bureau when established will be able to provide. In the meantime the scientific bureaus are actively coöperating with one another and endeavoring to do the most necessary work and refrain from unnecessary effort and duplication.

However, duplication in some cases is commendable. Where a problem is of supreme importance and great difficulty, the chances of success are increased if more than one person or agency attempts it. In some cases the difficulties and uncertainties are such that the result of a single effort would not be trusted, and two independent agencies could well attack the problem simultaneously. Often when two men or two agencies appear to be working on the same subject, they are found to be studying different phases of that subject, or are attacking the same problem from entirely different standpoints, and are really not duplicating each other's work at all.

ENGINEERING WORK

Engineering work is sometimes referred to as an example of duplication, because so many of the government departments and bureaus employ engineers and do engineering work. Engineering is the application of science to useful ends, and the government employs a great many kinds of scientists and engineers in many different kinds of work. Various bureaus of the Army and the Navy, the Geological Survey, the Bureau of Mines, the Coast Survey, the Bureau of Standards, the Reclamation Service, the Interstate Commerce Commission, the Bureau of Public Roads, the Forest Service, and other government agencies employ engineers.

In the proposed classification of government employees, twenty-one different kinds of engineers are recognized.

To consolidate all engineering work in one or a few agencies would involve a very radical redistribution of functions, and would lead to confusion and often new cases of duplication, as pointed out, in other kinds of work. There is, of course, good reason for grouping together bureaus that are predominantly of a scientific or engineering character, provided we do not sacrifice some more important consideration in doing so. A Department of Commerce and Industry would be presumed to contain so far as possible all the bureaus concerned with commerce and industry, including some doing engineering work. Similarly a department of Public Welfare or of Science and Education might be formed to group together certain related activities, which would necessarily include more or less of engineering. A Department of Public Works would presumably perform a large amount of engineering. But to have one department perform all the engineering work of the government would associate very heterogeneous functions and activities together, and, as it would sacrifice major considerations to minor ones, would seem to be utterly impracticable.

MAP MAKING

Map making is another example of alleged duplication. The Coast and Geodetic Survey makes the surveys of the shore line and all coastal waters of the United States and its possessions for nautical charts, and establishes the primary horizontal and vertical control points or stations of the country from their own surveys. The Geological Survey makes topographical surveys and prepares and publishes the standard topographic maps based on the fundamental control surveys of the Coast and Geodetic Survey. The Engineer Corps of the War Department makes military maps, principally

in the Philippines, Hawaii and Panama. The Hydrographic Office prepares maps for the use of the Navy, but its work is confined to areas entirely outside the continental limits of the United States. The General Land Office makes surveys and maps of the public lands for facilitating placing settlers on unoccupied areas; the Reclamation Service maps its own reclamation projects when necessary. The Bureau of Soils makes soil surveys and plots the same on special maps, and no one could do this better than the soil experts who make the surveys.

Each service is engaged in a different kind of highly technical work and handles its own data and constructs its own maps, although using the data of other agencies so far as possible. If each made the same kind of maps, it would involve wasteful duplication; but all the maps could not be made by the same group of artisans and map experts, and it is not believed by these map-making agencies that it would be better to have it done by one agency. The Board of Surveys and Maps of the Federal Government represents all the federal agencies concerned and the question of securing greater efficiency is being given careful consideration. In the meantime the board is securing coöperation among all the map-making agencies of the government, and also coöperating with private map-making agencies and is striving to avoid unnecessary duplication. It is very probable that there would be loss and not gain to attempt to consolidate all of the technical map work of the government in one place.

PUBLIC HEALTH

Public health is another subject in which wasteful duplication has been charged. The Public Health Service is the one great agency of the government which is primarily concerned with

this subject, and it is sometimes suggested that all activities relating to public health should be performed by that organization, and that the present method of distributing some of these activities and having a number of departments and bureaus coöperate in public health work is wasteful. The problem is, however, not so simple as it might appear at first glance. The State Department collects much valuable information all over the world on subjects related to public health, including results of investigations relating to epidemics and vital statistics and transmits them to the Public Health Service. This is useful coöperative work, and of great value to the Public Health Service. For the latter to send its agents abroad to collect this information independently of the State Department would be enormously more expensive and more difficult than the present method.

The Interstate Commerce Commission performs some public health functions in connection with its supervision of interstate commerce and travel. It is done effectively and in perfect accord with the Public Health Service, and is another example of commendable coöperation. To require the Public Health Service to do it because it is logical to have all public health functions performed by one agency would probably involve increased cost and complication of administration that would be a heavy price to pay for the gain resulting from a consolidation of functions. The Post Office performs some public health functions in connection with the mails, but it is done in coöperation with the Public Health Service. To require the latter to go into the Post Office Department and do what the Post Office is now doing for itself would probably lead to greater rather than less expense and confusion. The Bu-

reau of Mines is charged with some public health functions in connection with mines, but the work is performed for it by the Public Health Service.

The Department of Agriculture is doing a large amount of public health work in connection with food products. That department believes that it is just as logical to have all investigations and regulations concerning agricultural and food products in one department as it is to have all public health work done by one agency. The important and extensive meat inspection work of the government is carried on by the Bureau of Animal Industry, a bureau devoted to the investigation of a wide range of problems in animal industry, including the diseases of animals. The inspection of animal carcasses slaughtered for human food and of meatpacking plants and processes seems a very natural extension of its work. This is, of course, a public health function and might be transferred to the Public Health Service. But if so, it would replace one kind of duplication by another, and it is a question which is to be preferred. The animal quarantine laws are also administered by the Department of Agriculture.

Again, the Bureau of Chemistry enforces the pure food laws, which is in part a public health function. If this were transferred to the Public Health Service, there would probably be two chemical laboratories instead of one studying food products, one in the Department of Agriculture studying the questions of production and distribution not primarily concerning the public health, and the other in the Public Health Service studying foods in connection with the enforcement of the pure food laws. Whether that would be better than the present arrangement is the question. At present the two agencies are coöoperating and assisting one another. The divi-

sion of the Bureau of Chemistry which enforces the laws concerning the sale of drugs is in charge of a surgeon detailed from the Public Health Service, who has the resources of the Public Health Service and the Bureau of Chemistry at his command. One aspect of the matter that should not be overlooked is that the enforcement of the pure food laws is largely an educational matter, the aim being to instruct and assist the industries, so as to obviate so far as possible the necessity for prosecution. It is desirable, therefore, that the enforcing agency be thoroughly in touch with methods of production and know what is possible and practicable.

The Bureau of Fisheries supervises, among other things, the catching and packing of salmon in Alaska and the Columbia River, to prevent their extermination and to make sure that the meat is fresh when packed. The latter is, of course, a public health function, but it is much more convenient and economical to have both functions performed by one set of inspectors than to have two sets, one representing the Bureau of Fisheries and dealing with the culture and protection of fish, and the other with the precautions to protect the public health. The latter method would involve a much more serious kind of duplication than the former; and it is a question whether it would not be less businesslike and less effective.

The Bureau of Immigration performs some public health functions, but there is close coöperation with the Public Health Service, which makes the principal medical examinations of immigrants, as provided by law; and there is no duplication of effort between the two services. The Army is concerned with public health, and again there is close coöperation with the Public Health Service. A central

coördinating board, like the Federal Board of Maps and Surveys, might be very successful in securing more effective coöperation of all federal agencies in this important work.

FEDERAL AND STATE COÖPERATION

More difficult than the relations of the departments of the Federal Government to one another in public health work is the relation of the Federal Government to the states and cities. Here again one can not carve out a block of activities and say that therein the Federal Government is supreme, and outside it the states and cities may function without restraint. Over-lapping of fields is inevitable and hence there must be coöperation, and a good understanding, and the proper spirit of accommodation, and above all a desire to serve the public as effectively as possible. The bad consequences of a lack of coöperation and understanding are quite as serious as duplication of effort, and in some cases far more so. The whole problem calls for the most careful study and intelligent handling. No mere reorganization would solve the difficulties unless provision is made for coöperation of the various agencies concerned, federal, state, municipal and private, and this applies not only to public health work, but more or less to all the scientific and technical work of the government and much of the inspectional work.

If a more complete information service could be maintained among the departments, so that the information or technical facilities existing in one place could be made known and be available wherever and whenever they may be needed, and thus mistakes or useless effort or duplication of facilities be avoided, it would be of great value to the service and tend to increase efficiency. Much of the value of scientific and engineering societies lies

in the contact they provide between those engaged in similar lines of work and the opportunity afforded to get this kind of information. In the government service this need is partially met in such unofficial ways, and also partially through official channels, but there is undoubtedly room for improvement.

BARRIERS TO COÖPERATION

One of the most frequent reasons for incomplete coöperation is the lack of funds to enable a given bureau or agency to do the work in its line that another agency of the government needs. In such cases the bureau needing the service will often from necessity do the work for itself, and may thus get a line of work established which is continued. This is the way in which some of the map-making work originated. If the Coast and Geodetic Survey and the Geological Survey had been provided with sufficient funds to do all the work, the occasion for starting the work in some of the other branches of the service would not have arisen. Until very recently the transfer of funds from one department to another to cover the cost of work done by one agency of the government for another was not permitted. That is, a bureau having funds and needing an investigation or survey or other service could not repay some other bureau that was especially qualified to perform that service for the cost of the work. Hence, if the other bureau did not have surplus funds and so could not bear the expense without reimbursement (a condition that often occurs), the bureau needing the service would be obliged to do the work itself or employ someone outside the government to do it. This legal barrier to coöperation tended to promote duplication. Since the war, when the necessity and advan-

tages of coöperation among the departments was so fully demonstrated, Congress has authorized the transfer of funds from one branch of the government to another, for services rendered or to be rendered. The next step will be, when a budget bureau is established, not only to permit such transfer of funds, but to encourage or even in many cases to require it, in order that work may be done to best advantage and duplication of work and facilities be reduced to a minimum.

It should not be understood from the above that there are no examples of undesirable duplication in the government, or that great improvements can not be made. On the contrary, many improvements can and should be made. But many of the cases of duplication and waste frequently cited are apparent rather than real, and others have arisen from circumstances beyond the control of the bureaus concerned. It is important in proposing remedies not to suggest a worse condition than the one to be corrected. The problem is exceedingly difficult, and can not be solved by the same procedure in every case. The government service is so extensive and complex that there is great need of a competent and effective coördinating agency, which would be able to promote coöperation and a good understanding and largely eliminate unnecessary duplication of effort; and such an agency it is presumed the budget bureau will become.

The Value of Research and Standardization in Government

We have discussed above two major reforms or advances in the Federal Government which it is generally hoped may be realized at an early date, namely, (1) the classification and standardization of the personnel of the government, with the accompanying adjustment in compensation when

necessary, so as to make it possible to maintain a high order of public servants and have a competent and efficient public service; (2) the establishment of an executive budget handled by a well-equipped budget bureau, so that the work of the government may be systematically planned and coördinated, and its various departments and bureaus may coöperate to best advantage, on the one hand avoiding duplication of effort and equipment, and on the other, seeing that important work is not neglected through lack of provision for it. A third improvement now under study and discussion is the rearrangement of some of the activities of the government, so as to form more logical or more convenient groupings and perhaps enlarge or add some activities now inadequately provided for.

These improvements, if fully realized, should constitute the greatest advance in the effectiveness and efficiency of the government that has been made in many years. There is a fourth advance that can be made, comparable, I believe, in its beneficial results with the others mentioned, namely, the application in far greater measure than heretofore of the methods and results of science to the conduct of government. Science has had an honored place in the scheme of the Federal Government, and has rendered invaluable service in many directions. There would be nothing new in what is proposed except that the utilization of the methods and results of science would be more general, and scientific research would be carried out on a much more adequate scale than heretofore. Scientific men should not be looked down upon as theorists nor looked up to as philosophers, but regarded as equally necessary with business men and lawyers and others in the solution of the manifold problems of government.

In doing things as well as possible, whether in business or in government, it is necessary to have full information. To know, and to do as well as we know, is what is needed. To solve the problems of government successfully will be difficult enough if the fullest information obtainable by means of scientific research is available.

All experience shows that such work if wisely planned and competently conducted is profitable; it would pay for itself many times. As it would be an investment that would return dividends almost at once, its cost is not a serious objection. Large and successful business organizations have found such use of science to be profitable, and the business of the government is no less important and would probably be benefited by such work no less than that of private concerns. During the World War the governments of the various nations utilized science extensively in devising methods of destruction, as well as of protection. Should we not be as diligent in utilizing the creative and beneficent results of scientific work in times of peace, as we were in utilizing it for destruction and protection in time of war?

In the application of the methods and results of science to the problems of government, one of the first things to come to mind is the problem of public health. The war showed an unsatisfactory condition as to health of a surprisingly large percentage of those examined in the draft.

The greatest waste in all ages of the world has been the waste of human life, and what the government does for its people in this respect is one of the best measures of the quality of government as well as of civilization itself. To contend that the state is concerned only in minor degree for the lives or health of its citizens assumes not only callous unconcern to human suffering,

but stupid indifference to economic loss. Such economic loss arises from the necessity of caring for the indigent and from the loss of production of those wholly or partially incapacitated, and the loss of those whose death is preventable. A far larger sum for medical research and sanitary precautions would be justified from economic considerations alone; it would be justified again by the desirability of rendering the maximum of service practicable to the tax-paying public; it would be justified still again by considerations of humanity and service to mankind. For the benefits of research in medicine are as wide as the world, and this country can well afford under present circumstances to give to those beyond our borders some benefit of this kind for all we have received in times past from without.

In the many social and economic problems which arise in connection with government, there is great opportunity to apply the methods and results of science, and much is now done in this direction. Without going into the question of what more should be done in this important field, I wish to point out a line of work which vitally affects the conduct of the government's business, as well as the interests of business outside the government, in which it would appear that very much more could be done to advantage than is now done.

One of the commonest and most necessary acts of government is purchasing materials and supplies, paper, ink, office equipment, coal, lumber, machinery, electric lamps, instruments, chemicals, textiles, leather goods and hundreds of varieties of manufactured product. Such government purchases must be made in the open market, with no favoritism to particular bidders, and the lowest or at least the best bid accepted. No officer of the govern-

ment can award contracts intelligently and fairly and accept or reject deliveries justly without proper specifications and full information as to qualities. To prepare specifications that are adequate and fair is a difficult matter and often involves extended research. If the government does this work intelligently and does its buying wisely, and tests deliveries systematically, it not only gets what it bargains for, and saves far more than the cost of the testing, but it maintains its dignity and integrity, encourages good quality and good workmanship, raises the standards of business, and benefits the general public. On the contrary, if it buys with inadequate specifications, and accepts goods without test, it lays its representatives open to charges of favoritism or collusion, encourages misrepresentation, discourages clean competition, rewards the dishonest, and defrauds the taxpayer who ultimately pays the bills. As between these two methods of doing business, it would seem that there was no room for hesitation, and yet the officers of the government are often forced to use the second method instead of the first from the lack of proper specifications and tests because funds are not available to permit the proper agency to do the work.

EXAMPLES OF GOVERNMENT TESTING

For many years electric lamps purchased by the government have been systematically inspected at the factory and samples selected for test in the laboratory. The information so obtained is utilized in the preparation and periodical revision of standard specifications which are used in the purchase and testing of lamps. Electric lamps are made by highly specialized technical processes. It is very easy to make lamps that will give light, but difficult to make lamps of high

quality. Since government purchases of lamps have been consolidated into large contracts and lamps have been systematically tested according to proper specifications, the prices have been the lowest and the quality of the lamps the highest that the market affords. The ordering of lamps by each department is now a simple routine operation, whereas formerly the separate purchasing of lamps involved dealing with agents of various manufacturers and guessing as to who offered the best values. The systematic testing of lamps by the government not only protects the government in its purchases, but it protects the public in large measure, for the testing is a constant check and stimulus to the manufacturer and tends to keep up the quality of the entire product, and so benefits the public. The value of this work, which puts the purchase of lamps by the government on a business basis and protects the manufacturer of a high-grade product as well as the user, is many times the cost of the work. The influence of the government, instead of being hurtful as it formerly was, is thus stimulating and helpful to the industry, tending to raise the quality of the product and to improve business methods.

The testing of paper for the government is another example of constructive work which puts the government's purchases on a business basis and tends to help the industry instead of degrade it. Formerly the government bought paper in great quantities on incomplete specifications and accepted deliveries upon inadequate tests. Manufacturers knew that they could supply something different from what was specified, and one who was willing to do so had the advantage over one who supplied what was called for. This resulted in many manufacturers refus-

ing to bid on government contracts, and created an intolerable situation, which was corrected when the specifications were made adequate and tests were complete and systematic. Such work if properly done, with the full coöperation of the manufacturers, leads to most valuable standardization work, which may in time cover the entire products of an industry.

The government is a large user of textiles. The textile industry is one of the largest and most important of our industries and one which concerns every man, woman and child in the country. If textiles were standardized, so that they could be bought and sold on adequate and intelligent specifications, and consumers as well as wholesale and retail dealers could know what they are buying and could get what they pay for, it would be of enormous benefit to all. Suppose the brand or name of every textile product was defined in such a way as to convey precise information, and the same name always meant the same quality. And suppose that dyes were tested and certified, and one could depend on the mark as to their permanence, and were told what conditions they would stand or would not stand. Would it not be worth many millions of dollars every year to the public to have such information? And would it not be a boon to honest dealers, both wholesale and retail?

The only class to be injured by such a situation would be those who thrive by misrepresentation or by selling inferior goods on their appearance without representation. The thorough investigation of textiles and the preparation of adequate specifications for government purchases, would be of great value, not only to the government, but to the entire public. It seems certain that this work would be

as useful as the grading of lumber, or cattle, or wheat.

Cement is a product that is used by the government in large quantities, and is a material in which good quality can only be assured in advance by special test. The work of the government has been thorough and creditable in this connection and through coöperation with the industry, specifications have been developed which are everywhere recognized as standard. All the cement for the Panama Canal was systematically tested and the integrity of the work thereby assured. Many other products employed in the building industries should be studied thoroughly and standard specifications prepared, and if this is done with the cordial coöperation of the industries, which is assured in advance if the government would take the lead adequately, the benefits to the entire public would be enormous. This work could also be extended to include methods of applying materials, and to a study of heat retarding and fire resisting properties of building materials. Such work is in fact being done by the government on a small scale, but it ought to be carried out on a scale commensurate with the importance of the industry.

CONTRACTS FOR SUPPLIES

The General Supply Committee, made up of representatives from the ten executive departments and acting under the direction of the Secretary of the Treasury, makes contracts for a great variety of supplies used by the government and issues an annual catalog so that all departments may order from the common list. This is an important step in advance over the former method of independent purchase by every agency of the government, but it is far short of what is needed. At present, contracts are for

an indefinite aggregate quantity to be delivered when called for by any department in any quantity however small. The contract extends over one fiscal year beginning some months after the time of bidding, and the contractor must gamble on the future cost of his goods. There is too great an element of chance, both as to quantity needed by the government and the market price during the term of the contract to make it a satisfactory method of doing business. The government should buy in wholesale lots, for early delivery, and do its own distributing; and thus remove the uncertainties as to quantity and market price, and make it a normal business transaction. Moreover, when deliveries are made in small lots at irregular intervals, it not only greatly increases the cost of delivery, but makes it impossible systematically to test the quality of the goods delivered. If deliveries were made in carload lots, samples could be taken and tested to see that they were in accordance with the specifications or terms of purchase, and thus no opportunity would be offered to substitute something different.¹³

The present method often leads to very awkward and embarrassing situations. If the market price falls, the departments are obliged to pay more for the goods than they are worth, and the contractor makes an excessive profit; if it advances, the government often compels the contractor to deliver the goods at a loss, and he sometimes fails to deliver and pleads inability to

¹³As an example, several departments of the government recently received and paid for a large quantity of soap powder which was afterward discovered to contain 8.7 per cent of soap instead of 30 per cent called for in the contract. The contractor admits that it is not according to specifications, and is willing to refund a part of the purchase price, but it has not yet been determined what allowance should be made.

get the goods.¹⁴ It is exceedingly unfortunate for the government to put its department officers into such a position, and to compel them to do business under such a handicap. If, on the other hand, purchases can be made in wholesale quantity as needed, and tested as delivered, and the lowest market prices always paid for the quality needed, the government's business is freed from the element of speculation and uncertainty, and it may be conducted in a strictly business-like way. This will involve some extra expense for conducting the supply department, but it would save a great deal in the cost of goods and also in clerical and auditing work in all the departments.

The problem of specifications and tests for materials and supplies is of very great importance also to states and municipalities. To put purchasing on a sound business basis, free from even the suspicion of politics and favoritism, is practically impossible without adequate specifications and tests of materials. If the Federal Government should coöperate with the states and municipalities on a comprehensive program of work of this kind, it would yield results of enormous value to state and municipal government. This kind of coöperative work also has great educational value to those who participate in it, including representatives both of the government and of business. The purchasing of supplies and the letting of contracts give rise to some of the most difficult problems in government. If there is made available in this work the results of scientific and engineering research

¹⁴Recently a contractor for a material used in photographic work reported that the market price had fallen since he closed his contract with the government and that he could make a satisfactory profit at \$8.00 per pound instead of \$12.00 per pound, which his contract called for. This is, however, not a frequent occurrence.

and coöperative effort in the preparation of specifications and the making of tests, such work can be done in a way to elevate and benefit both business and government.

The accuracy and honesty of the weights and measures of trade are assured by government inspection and test. Commodities are measured when sold and resold, at wholesale and retail, by weights and measures which should comply when new with proper specifications and be maintained up to a certain standard during their useful life. States and municipalities assume the responsibility for the inspection of ordinary weights and measures, but the Federal Government does the work in most states for track scales that require special and expensive equipment to test, and also coöperates with the states in their inspection work. This work is adequately done in some cases, but it is far from satisfactory in most states and cities. Considering the importance of the matter to all the people, and the strong temptation to use inaccurate or fraudulent weights and measures where there is no inspection, it would appear that the government should support this work better than it does.

The war called for scientific research in connection with the standardization and making of munitions, finding and using substitute materials, locating enemy guns by sound and flash ranging, building and equipping airplanes, dirigibles and balloons, and many other major subjects as well as countless minor ones. This called for well-equipped scientific laboratories and the trained personnel of research workers and assistants. The government laboratories of the principal allied countries were utilized to the limit of their capacity, and all kinds of makeshift facilities were pressed into service. When we came into the war

the same was true in this country. If preparations had been begun several years before, results would have been obtained sooner and the war appreciably shortened.

In view of this experience, and the probability that science and technology will be no less important in the future than in the past, the question naturally arises whether this government is giving adequate support to scientific research as a part of its program of military preparedness? In time of war the civil branches of the government will be called upon immediately, and they will be able to render invaluable service if they are adequately equipped and manned. In the meantime, pending the arrival of the war, which we hope will never come, they will be able to render useful service in civil problems and so be more than self-supporting. This kind of preparation for war, which adds nothing to the military budget if the civil departments are adequately supported, should appeal to all as practicable and desirable.

The above are only a few instances, which could be multiplied almost indefinitely, where scientific research and specifications based thereon, and tests made systematically by an unbiased and competent agency, would be of immense value to the federal, state and municipal governments of the country. Specifications would be made in coöperation with the industry and would be accompanied in many cases with standardization that would be of great value to the general public. Their value in raising the standards of business in governments, federal, state and municipal, can hardly be overestimated.

There is another class of standards of great value to the states and municipalities, as well as to industry, in the preparation of which the Federal Gov-

ernment is coöperating. I refer to safety and building codes and other standards of practice.

Coöperation of the Federal Government in the Preparation of Safety and Building Codes and Public Utility Standards

One of the most valuable opportunities for coöperative work by the government is in safety research and education; that is to say, in studying methods of reducing accidents in the industries and in every-day life, in formulating sets of safety rules or codes, and in assisting the accident and industrial commissions of the states in adopting and administering them and manufacturers in complying with them. More than 3,000,000 industrial accidents occur every year, of which 25,000 are fatal. Many millions of dollars are expended annually by employers for accident compensation and the cost of insurance, and many millions more are lost by injured employes in wages not compensated. Several millions of dollars per year are also spent in accident prevention work. Nearly every state has an accident commission which supervises the collection of compensation for accidents, but many of them do very little to reduce accidents. A few states have provided their commissions with generous sums to enable them to prepare safety rules and put them into effect, and valuable results have been secured by such efforts.

Recently a comprehensive program of safety work has been initiated in which many agencies are coöperating. This work includes the preparation of a large number of different safety codes, covering the hazards of manufacturing in many different industries, including transportation, mining, and the use of electricity, gas, machinery, and explosives by the industries and

the public. These safety codes are more than mere sets of safety rules, often amounting to a standardization of engineering practice in many aspects of an industry, and being of great value in promoting efficiency and good practice as well as safety. They are being prepared by the active coöperation of all the interests concerned, including engineering societies, industrial and insurance associations, state accident boards, manufacturers of machinery and appliances, and the Federal Government. The work is under the general auspices of the American Engineering Standards Committee, which gives its approval to the codes. The work of preparing the codes involves study and discussion, a comparison of experience and a consideration of the best operating methods. Efficiency and good service are considered as prominently as safety.

Some of the more important examples of these codes are the steam boiler code of the American Society of Mechanical Engineers, the electrical fire code of the National Fire Protection Association, and the national electrical safety code of the Bureau of Standards. A national elevator code, codes for steel mills, blast furnaces, foundries, machine shops, textile mills, saw mills, and many other industrial establishments are being prepared or are under consideration.

The government is rendering a valuable service in this work, but the work suffers for lack of funds. The industries, the engineering societies, and the state commissions are doing their share of the work. The Federal Government's share is important and should be well done, and yet at a time when it should be strengthened it has been seriously crippled. The cost of the work is trifling in comparison with its value, and it does not seem possible that this work will be allowed to lag or

cease for want of funds if the general public could but understand its immense importance and usefulness. Aside from questions of humanity and the economic value of human life, the losses in wages and the damages paid in compensation amount to so many millions annually that the small amounts required for the government's share of the work are insignificant in comparison. Probably no work of the Federal Government is more useful or more productive in proportion to its cost, and none is more needed by the country at large. The states and the industries are waiting to put these safety codes into effect, and the great advantage of national uniformity will result if they are prepared so well that they can come into general use. The work should be strengthened and enlarged at an early day, as a measure of efficiency and economy as well as of humanity and good government.

HOW THE GOVERNMENT ASSISTS

There are four ways in which the government assists in this work of preparing and putting into effect industrial safety codes, besides the part it takes in the initiation of the program of safety code work and the general supervision and approval of the work through its membership in the American Engineering Standards Committee.

1. In the capacity of sponsor, to prepare some of the safety codes, with the assistance of committees representing the industries and other interests immediately concerned. The national electrical safety code, the national gas safety code, a national aviation code, a code for the protection of the heads and eyes of workmen, the use of electricity in mines, a general mining safety code, and other codes have been prepared or are being planned by government departments,

either alone or in conjunction with other sponsors.

2. Representatives of the government serve on committees for codes of which engineering or insurance organizations or safety societies are sponsors, and are able to render very valuable assistance if they can attend meetings and do the work involved in such service. It is exceedingly important that the codes be consistent with one another, and as uniform in plan and arrangement as practicable, in order that they may be as acceptable and useful as possible and come to be used in every state so far as its industries require them. The departments of the Federal Government concerned can serve as valuable coördinating agents in this work, if they are provided with the means to work with, and thus make the work more valuable and more generally utilized.

3. The Federal Government can be of very great assistance to state accident commissions in adopting safety rules and codes, if it can send its representatives on request to attend hearings where the codes are being considered. This is coöperative work of the finest kind and of the greatest value. The government in no way infringes upon the states' prerogatives, but on the contrary recognizes the authority and responsibility of the states and responds with assistance only when it is asked. It is efficient and economical, for a few experts in these safety codes, many of which are highly technical and of an engineering character, can explain and interpret them to the accident boards in all the states.

4. The government can perform a useful function in assisting manufacturers and the industries generally in their studies of the codes and in their task of getting them into use. This is largely an educational problem. To educate the millions of workmen in-

volved, throughout all the states and all the industries, is a problem of great magnitude, and the Federal Government can not afford to fail to do the little it is asked to do when the states and the industries are doing so much.

One of the most interesting of the codes in this program is the Aviation Safety Code, covering air planes, air ships and balloons, so far as safety is concerned; their design and construction, their instrumental equipment, their operation, inspection and testing, the qualifications of aviators, signaling systems, landing fields, and various other safety requirements and precautions. The preparation of such a safety code is an engineering and educational work. The code would be useful to any governmental or municipal authority which has occasion to adopt it or parts of it; it would be useful also to aviators and the public even though it were not enforced by any governmental authority. It is important that before local authorities have adopted various conflicting rules and requirements, there should be a thorough study made which can be the basis of reasonably uniform rules and requirements, and in view of the many hazards involved, it is none too soon to begin such a study.

BUILDING CODES

Another class of standards of practice akin to safety codes are the building codes of cities. They contain many requirements regarding the construction of buildings, the question of fireproof or fire-resistive materials, fire escapes and exits, lighting, ventilation, heating, plumbing and in the larger cities a very large number of other requirements. They need to be revised from time to time as building methods change, as new materials or new information are made available, or the

growth of the city makes new provisions desirable.

But the revision of such a code is a tremendously difficult undertaking unless information on the properties of materials and appliances is available from a competent and unbiased source. The Federal Government is in position to render a service of immense value to the cities of this country if with the coöperation of manufacturers, engineering societies and associations of municipal officers it will carry out a thorough study of all the questions involved in a city building code. The work should be carried on continuously and indefinitely, for new questions and new materials will require investigation and the work would probably never cease. But useful results would begin to flow from such an investigation almost immediately, and would continue so long as the investigation lasted.

Some very valuable work of this kind has already been done by the Federal Government, but it has never been adequately supported. The work should be carried out on a scale commensurate with the importance of the problem. It would tend to standardize many building operations, and would in many cases improve construction and in others reduce costs. It is another case where fuller information is needed, and where research made by a competent and unbiased agency and made available throughout the country is the most economical as well as the best method, and tends to standardize and unify practice to the great benefit of the industry and the public. This is an opportune time to take up such an investigation for there is great need of reducing the cost of building, of eliminating needless labor and materials, of standardizing products, and making information as available as possible to architects, to

builders, to manufacturers and to the public generally.

PUBLIC UTILITIES

The government should coöperate actively with the electric light and power, gas, electric railway, and telephone companies in the study of the many engineering questions involved in rendering good service to the public. The changed economic conditions of recent years have made it necessary for most public utility companies to ask for advances in rates, sometimes repeatedly. And as prices decline it is necessary for rates to be readjusted. These frequent rate changes are difficult and perplexing, not only to the companies and the commissions having jurisdiction but to the public as well. As the public in the end must pay all the cost, the public is vitally concerned in having efficient and economical management of these utilities.

The government could render a service of immense usefulness and importance by studying the problems of the public utilities and helping the companies to secure more efficient operation and a better understanding by the public of their difficulties and their needs. The utilities represent a special kind of partnership between their owners and the public, in which the owners agree to furnish the plant and the service, and the public grants a monopoly privilege and agrees to accept the service rendered and to pay the entire cost plus a profit to the utility company. If the company's credit is impaired or it fails altogether, the community, as well as the company, suffers. It is evident, therefore, that public officials' and citizens' associations should take a keen and intelligent interest in public utility problems, and while being fair to the utility company should look carefully after the community's interest.

The government has been rendering important service in studying various public utility problems and working out standards of service. Enough has been done to demonstrate the value of such work and to show that coöperation is practicable. But it could render a service of vastly greater importance to the utilities and to the public, by an expenditure of a generous sum each year for research and education on utility problems. It would cost less than one cent per year per capita of the country's population, whereas the value of the service that would be rendered to the public would possibly be fifty times the cost. The utilities collect several billions of dollars every year from the citizens of this country for service. To expend a few cents out of each hundred dollars paid for such service to improve the service and increase efficiency would be conservative and it could not fail to be profitable. The subject of this investigation concerns not only the quality and cost of public utility service, but often also the quality of municipal government. It is one of the most vital and far reaching questions confronting American municipalities and deserves to be considered very carefully.

There is no conflict of authority in this work, for the legal jurisdiction of the states and cities is not questioned. The Federal Government coöperates with the latter on request, and places the results of its investigations at their disposal. The problems are much the same in all the states and cities, and it is economical to have the investigations available to all. It is the same kind of voluntary coöperation that obtains in the investigations of the problems of agriculture, mining, manufacturing and education. Coöperation of business concerns in the study of the problems of commerce and industry has greatly increased in recent years.

Coöperation among federal, state and municipal governments in studying problems of government is equally advantageous.

RAILWAY RESEARCH

The railroads of the country are our greatest public utility, probably equal in magnitude of investment and annual cost to the public of all the other public utilities combined. The government through the Interstate Commerce Commission has long exercised supervision over the rates charged for freight and passenger traffic in order to prevent discrimination or overcharge, and has also supervised equipment and to some extent operation with respect to safety. It is now completing a valuation of all railroad property and has been given additional responsibilities since the return of the railroads to private management and control.

Owing to the very great increase in wages paid and in the cost of fuel and supplies the railroads are finding it more difficult than ever to pay expenses and earn a reasonable dividend for their stockholders. Rates have been raised repeatedly and still the revenues are insufficient. It is, therefore, more necessary than ever that they should coöperate with and help one another; and that they should increase their efficiency of operation to the very maximum. Here is an opportunity for the government to increase its coöperation with the railroads in constructive scientific and engineering work in order to improve performance, to eliminate waste, to reduce costs and to better the service.

Probably no one would claim that there is no opportunity for improvement in these respects, although it may be that the possibilities are not as great as one would think. If, however, it can be shown that the railroads have attained a high degree of efficiency in

all these respects, and are as economically and efficiently managed as possible, or as could be expected, the employes of the railways will undoubtedly look with much greater favor upon the proposal to reduce wages. In the interest of fair play and the rights of the public, which is called upon to furnish all the revenues from which labor and capital are compensated, it is highly desirable that the railroads be operated efficiently and economically and that the public be assured that such is the case, as should be done with all public utilities. We think of private ownership of the railroads sometimes as though they were private property as to management but a public utility as to service and rates. The railroads, like other public utilities, should be managed and maintained as public utilities, and wasteful competition, inefficient operation, and needless expense should so far as possible be discovered and eliminated. Certainly it would appear desirable under present circumstances for the government to do everything possible to coöperate with the railroads in their efforts to increase their efficiency and make themselves self-supporting.

The Value of Research and Standardization to the Industries

The problem of increasing production and reducing costs in the industries, without increasing the length of the working day or reducing wages so far as to make impossible an American standard of living, is a fundamental one. We can not invoke magic, we can not get something for nothing, we can not depend so much as formerly upon the bounty of nature. Only by greater knowledge and increased efficiency and the more complete elimination of waste can we hope to compete with other countries where labor is cheaper and the standard of living

lower. Industrial research and standardization will play a large part in the solution of this tremendously important and difficult problem provided it is carried on intelligently and adequately, and with the coöperation of all the interests concerned. To secure this general coöperation and the best results, it is imperative that the government should take an active part. We have discussed above the value of research and standardization in government administration. It remains to consider it from the standpoint of efficiency in commerce and industry.

There are serious objections to government ownership or government control of business, although a certain measure of regulation or control is necessary in many kinds of business. But it is hard to think of a valid reason why the government should not coöperate with industry, for the purpose of increasing the productivity of labor, of reducing the waste of effort and materials, of discovering new and better methods, of increasing prosperity and advancing our civilization. Coöperation of many agencies with the aid of the government has been shown to be practicable and profitable in numerous instances. It is welcomed by the industries, it is beneficial to the public, it strengthens the nation. The time is ripe for such work, and the industries are calling for help. It only remains to provide those branches of the government that are in position to do work of this kind the means to work with, and the work will proceed.

It is sometimes objected that governments are to govern and not to assist industry; let business take care of itself. But the people suffer if business is inefficient, those who are employed in the industries as well as those who use the products of industry. Hence the concern of the government is not merely for the welfare of the

owners of the business, but for the welfare of all the people and the country as a whole. In some cases business concerns have consolidated in great corporations, and come to a position where they carry on research extensively and efficiently without the help of the government, and even gain control of an industry.

Many instructive and convincing examples of the value of industrial research are afforded by the modern history of industry, and it is highly desirable that the benefits of research may be realized by the industries generally. The National Research Council is actively engaged in promoting scientific and industrial research, and the American Engineering Standards Committee is promoting engineering and industrial standardization. Both organizations are receiving the coöperation of the government, but not the adequate and effective coöperation they need and hope for, because the government agencies concerned are not given sufficient means to work with. It is believed that a better appreciation by the public of the importance of such work would result in better support of this work and great benefit to the industries and the public.

THE ECONOMIC VALUE OF STANDARDIZATION

The American Engineering Standards Committee is a coöperative organization devoted to the problems of national and international standardization. Twelve engineering societies or groups of societies, and five departments of the Federal Government are represented in its membership. The Committee is already actively at work in selecting sponsor societies for standardization work and approving standards. The government is rendering a valuable service to the industries, and thus to the people, by coöoperating in

this constructive and useful work. Manufacturers have not coöperated with one another in the past in standardizing designs as much as they could have done if there had been more adequate means of coöperating. They have resented government dictation and control, but they welcome government coöperation in constructive work that benefits both them and the public. In many cases the designs and sizes of machines and materials manufactured by different concerns are different merely because development has been independent. In other cases needless differences are introduced in order to have something different. In either case, too many sizes and designs and lack of interchangeability increase the cost to the manufacturer, to the distributor and to the user. Nothing promotes economy and efficiency in the use of raw materials and finished products more than intelligent standardization. It reduces the varieties and sizes of materials that must be supplied by the manufacturer, lessens the stocks that must be carried by the distributor, makes the cost of the finished product less and reduces the trouble and expense to the user in caring for and keeping in repair machinery and equipment of all kinds.

The manufacture of scientific instruments has recently come to be an important industry in this country. This is partly owing to the greater use than formerly of scientific instruments in the industries, and partly to the war which has largely reduced the importation of scientific apparatus from abroad. The government would do well to coöperate actively with the manufacturers and with scientific and engineering societies in standardizing and describing scientific apparatus, so that the manufacturer will know better the properties and capabilities of his own output of apparatus, and the pur-

chaser will know how to select apparatus and whether he gets what he orders. In other words, scientific apparatus should be scientifically described and intelligently used, and the government could render an invaluable service in aiding to bring this about.

The metallurgical industries have been greatly developed in recent years through scientific research, and there is now greater activity than ever in this field. The manufacture of glass, porcelain, tile, and other clay products has been greatly stimulated during the war by the coöperation of scientific laboratories, and vast benefit would be derived by these industries if this co-operation could be continued and increased. The measurement of temperatures and especially furnace temperatures is a problem of increasing importance in the industries, and many scientific investigations are continually arising in this connection. The intelligent and efficient development of aeronautics depends on the possession of full and reliable information as to the properties of materials, the accurate measurement of the performance of machines, experimental researches in mechanics and aerodynamics, and the most intelligent utilization of existing and newly developed information. The measurement of color and of illumination and of the optical properties of materials and the development of optical methods form together a field of investigation of great scientific and economic value. The standardization of electrical apparatus and machinery, of electric batteries, and of the materials used in their manufacture open a wide field for research. It is impossible even to mention all the subjects of importance in this connection, but enough has been said to show how vast the field and how practical the results that are obtained whenever science is appealed

to in answering the problems arising in the industries.

The high costs of the services of the plumber have been proverbial for years. Standardization in plumbing fixtures and fittings, and interchangeability of parts could be carried further than it has been. This would greatly reduce the charges for time and material in making repairs as well as in the original installation. The enormous and confusing variety of lighting fixtures, and the bad design of many, are due to lack of standardization or coöperation of the manufacturers with one another. Inefficient and dangerous gas appliances have been sold to the public for years, and many are still in use.¹⁵ The manufacturers can not be blamed, for they can not separately engage in expensive research to arrive at correct designs. The only practicable way is for all to coöperate and for the government to take an active part, helping the manufacturers to study these problems of design and standardization intelligently and thoroughly.

Such work is constructive and wealth-producing, and yields large returns upon the investment. The benefit is almost immediate and not only are there material returns in decreased costs and improved service, but such coöperation between the government and the industries raises the standards of business and is helpful both to the government and to the industries. It emphasizes good quality and good performance and good service, and reduces misrepresentation and exaggeration in selling. Is it not the duty of the government to coöperate more actively in this constructive way with the industries? No other agency can per-

form this important function. The government would do only a part of the work, but that part is of great importance. Engineering societies, manufacturers' organizations, and individual manufacturing companies will do their part, and in many cases the greater part. But if the government refuses to do its part on the ground that it would increase taxation, the public will not be satisfied with the reason given when it knows that at the present time out of approximately \$50.00 per capita per annum collected by the government for all purposes, *scarcely more than one cent per capita per annum is expended by the government for standardization work, and five cents per year per capita would accomplish much.* The matter is of so fundamental importance, and promises results of so great economic and social value, that it is to be hoped that some more adequate effort along this line may be made.

In Great Britain the Engineering Standards Association is largely financed by the government, while the Department of Scientific and Industrial Research is a government body financed entirely by the government. The work of these organizations is expected to be of great value to industry in that country, and to be of service in developing its foreign trade. The activity of the government in this work lends value to the standards that result from it. The American Engineering Standards Committee and the National Research Council (of America), on the other hand, are financed entirely without government aid. This is an additional reason why government research institutions in America should be so well-supported that they can do their full duty in coöperation with privately supported scientific and industrial institutions which are doing work in the interest of the pub-

¹⁵ It has been estimated that the preventable loss in the use of natural gas on account of inefficient appliances and other wastage amounts to more than two hundred millions of dollars per year.

lic, and particularly standardization work of the kind in question.

Summary

Reference is made to the criticisms of the departments of the government for their inefficiency and excessive cost and the need for greater economy and better management. The suggestion is made that an examination of the activities of the government and of the cost and useful results of the work in the various departments would show that unqualified criticisms are not justified, and that the greatly increased costs are due mainly to the war and its consequences rather than to the expansion of the normal civil activities of the government.

The functions of government are classified into protective, commercial and developmental, and the fact noted that the developmental functions of the Federal Government tend to increase because it is both logical and economical to have such work as is of general interest in all the states done either by the Federal Government, with the coöperation of the states, or by the states with the coöperation of the Federal Government. Scientific and industrial research is noted as an important example of such developmental work which is creative and wealth-producing and a necessity rather than a luxury.

The importance of taking account not only of actual expenditures by the government departments but also of receipts derived from earnings and sales of government property, instead of looking only at appropriations, is emphasized. Examples are given showing the great difference between appropriations and actual net expenses payable from taxation. In some cases departments or bureaus are nearly or quite self-supporting. The total of appropriations before the war, as well

as since, were several hundred millions of dollars per year more than the net expenses payable from taxation.

A functional classification of the activities of the Federal Government is given, there being eight groups representing expenditures, with revenues from taxation included in a ninth group. The first three groups are civil, and in 1920 represented 6.4 per cent of the total expenditures. The five remaining groups are military, pensions, obligations arising from the war, interest and reduction of the public debt (paying for the war), all of which together represent 93.6 per cent of the total.

A detailed classification of the activities of the Federal Government is given under 106 items or headings, falling into the eight groups referred to above. A brief explanation of this classification is given, with reasons in some cases for the assignments made. Group I includes the essential governmental activities, legislative, executive and judicial under forty-nine headings. Group II includes research, education and developmental work, under thirty-one headings. Group III includes construction projects classed as public works, under six headings. The remaining twenty-six headings fall into the other five groups mentioned in the preceding paragraph.

A balance sheet for each year of the eleven fiscal years, 1910-20 is given showing revenues and net expenditures in all the groups, together with the net deficit or surplus for each year. The three civil groups together had an average net expenditure of \$211,337,288 per year for the ten-year period 1910-19, equivalent to \$2.14 per year per capita of the population of the country. In 1920 this increased to \$3.45 per capita, for reasons given in the text and briefly mentioned below.

The cost of the war is calculated for

the four fiscal years 1917-20, by taking the actual expenses of the civil groups and adding the estimated cost of the military departments, interest and pensions as they would have been if the war had not occurred, based on pre-war figures. The excess of expenditures (not including loans to European governments and others) over the normal expenditures so determined was \$25,982,723,219, and this may be taken as the direct cost of the war during those four years. The excess of revenue collected over the estimated normal expenditures was \$11,818,699,-300, which covered 45.5 per cent of the calculated cost of the war during the given four-year period.

A brief but more specific statement is made of the functions and expenditures of the various activities included under the forty-nine headings of Group I, with tables and illustrative figures. The total net cost payable from taxation of all these activities, including Congress, the President and the various independent commissions (Civil Service, Tariff, Efficiency, Interstate Commerce, Federal Trade, the District of Columbia, etc.), Departments of State, Treasury, Post Office, Justice, part of the Departments of Interior, Agriculture, Commerce and Labor, the federal courts and penal establishments, operation of Panama Canal and public buildings, etc., was \$105,755,525 per year average for the ten-year period, or \$1.07 per year per capita of the country's population. In 1920 it was \$2.11 per capita.

The total net expenditures for the activities included under research, education and development in Group II, including fifteen bureaus of the Department of Agriculture and fifteen bureaus or other agencies under Interior, Commerce and Miscellaneous, was \$27,838,313 per year average for the ten-year period, or 28 cents per

year per capita. In 1920 it was 54 cents per capita.

The net expenditure for the new construction projects included as public works under Group III, including river and harbor improvements, Panama Canal, new public buildings, reclamation service, etc., was \$77,743,451 per year average for ten years, or 79 cents per year per capita. In 1920 it was 80 cents per capita.

The net expenditure for the Army and Navy, Group IV, averaged \$256,971,389 per year for the seven years 1910-16, \$6,302,322,105 per year for the three war years 1917-19, and \$1,348,892,747 for 1920. During the war years it averaged 25 times and in 1920 it was more than five times the pre-war rate. Pensions and care of soldiers, Group V, averaged \$165,439,-944 before the war (1910-16) and in 1920 was \$329,261,746. Obligations arising from the war, Group VI, were in the aggregate as follows for the four years 1917-20: Railroad Administration \$1,-534,975,574; Shipping Board \$3,217,-239,085; Food and Fuel Administration \$170,898,189; Bureau of Industrial Housing and Transportation, Council of National Defense, Interdepartmental Social Hygiene Board and National Advisory Committee on Aeronautics, \$70,916,818; National Security and Defense, purchase of the Danish West Indies, European Food Relief and Liberty Loan Campaigns, \$256,430,951; total, \$5,250,460,617.

Less than one per cent of the above was spent in 1917, 21 per cent in 1918, 47 per cent in 1919, and 31 per cent in 1920.

Interest payments less interest received averaged during the seven years 1910-16, \$23,605,213; during the war years 1917-19, the average was \$115,853,240; in 1920 it was \$929,131,-128. The relatively small average during the war years was partly because

the war loans came mainly in the later years of this period and partly because of large credits from interests on European loans.

A comparison is made of the expenditures of the civil branches of the government during the seven pre-war years 1910-16 and the three war years 1917-19. Group I, legislative, executive and judicial, increased from an average of \$97,718,290 to \$124,509,073 or 26 per cent; Group II increased from \$25,329,328 to \$33,692,610 or 33 per cent; Group III decreased from an average of \$85,408,910 to \$59,857,380 or 30 per cent. The total of the three groups averaged \$208,456,528 before the war and \$218,059,063 during the war, an increase of less than 5 per cent. During the same time the population of the country increased nearly 8 per cent, so that the per capita cost of the three civil groups together was slightly less during the war than before and averaged for the ten-year period \$2.14 per year.

In 1920 the civil expenses increased to \$3.45 per capita. Group I increased 80 per cent, Group II, 70 per cent, Group III, 42 per cent. The principal causes of increase in Group I were the large expansion of the Treasury Department largely on account of increased activities arising from the war; the large deficit in the Post Office Department because of increased compensation of employes and the railroads, as contrasted with a surplus during the war; the increased compensation of employes in all other departments; the increased cost of all kinds of material and supplies; and the growth of the government. The increases in the Treasury and Post Office account for 79 per cent of the total increase, all other departments and commissions 21 per cent. Of the increase in Group II, half was on account of the census of 1920 which is temporary; one-fourth

was in agriculture and the remainder in all the other activities. In Group III there was an increase of 17.8 millions in rivers and harbors, and of 23.5 millions in highway construction, and decreases in all the other items, the total net increase being 25.2 millions or 42 per cent.

In the six years 1910-15, the average federal taxation was \$6.63 per capita of the population of the country, of which \$2.19 or 33 per cent was expended for the civil activities included in Groups I, II and III. In 1916 the per capita taxation was \$7.08 of which \$2.00 or 28 per cent was for civil expenses. In 1917, taxation was \$9.92 per capita of which \$1.96 or 20 per cent was spent for civil purposes. In 1918, taxation was \$37.66 per capita and \$2.15 or 5.7 per cent was for civil purposes. In 1919, taxation was \$38.81 of which \$2.21 or 5.7 per cent was for civil purposes. In 1920, taxation was \$53.46 per capita of which \$3.45 or 6.4 per cent was for civil purposes. The average taxation for state governmental purposes throughout the forty-eight states of the Union in 1918 was \$4.48 per capita. The average taxation for municipal government in New York, Chicago and Philadelphia in 1918 was \$30.22 per capita. For all cities of over 30,000 population for eight years, 1910-18, it averaged \$23.10 per capita, while net expense averaged \$26.21.

The various functions of the Federal Government are reviewed in comparison with those outlined on pages 2 and 3 in order to see to what extent the Federal Government is doing the things that would naturally fall to it in the distribution of functions between federal, state and municipal. The conclusion is that the developmental functions, in which the primary aim is service rather than control, and the work is coöperative and educational rather than

administrative and governmental, are capable of great extension without conflicting with the rights or responsibilities of the states and municipalities, or with private initiative.

The employment policy of the government is examined and some legal handicaps to efficiency discussed. Statutory positions with fixed and often inadequate salaries make it difficult to develop an efficient personnel; the inequality of salaries in different branches of the service causing dissatisfaction and increasing the frequency of transfer gave rise to legislation restricting transfers and promotions by transfer. A classified and standardized civil service is greatly needed, and it is hoped that it will be realized in the near future. A Congressional Commission has classified the service in the District of Columbia, and two bills have been introduced into Congress embodying the results of this classification.

The war brought a great many additional employees into the government service, but the number has been considerably reduced during the past year. A comparison of the number in the service on July 31, 1920 with June 30, 1916, showed that the increases were mainly in the Army and Navy, War Risk Insurance, Shipping Board, Railroad Administration, and in the Treasury and State Departments, the functions of which have largely increased on account of the war. The Post Office increased in four years from 250,885 to 279,072, an increase of 28,187 or 11.2 per cent. The personnel in Washington and throughout the country in the Departments of Interior, Agriculture, Commerce, Justice, Labor; the Panama Canal, Government Printing Office, Interstate Commerce Commission and miscellaneous bodies (that is, all activities of the three groups I, II and III included in the executive departments,

except Treasury and State) increased in four years from 81,376 to 84,825, a difference of only 3,449 or 4.2 per cent. In these four years the population of the country had increased more than 5 per cent. The turnover in the personnel meantime has been excessive and a large part of the employes are hence relatively inexperienced. This answers the criticism of excessive personnel in these departments, and explains in large measure their reduced efficiency.

One of the reasons that makes it difficult to maintain a high standard of personnel and of efficiency in the government service in Washington is the high cost of living, and the resultant skrinkage in the purchasing power of salaries in recent years. This skrinkage is only partially covered by the war bonus which does not apply at all in the higher grades of the service. The recent fall in prices and reduction in the cost of living relieves the situation somewhat, but if the proposed increases of salary were made, there would still be a considerable margin between the new salary scale and what it would have to be to cover the actual increase to date in living costs since 1913.

Much has been said about duplication in the government service, and the reduced efficiency caused thereby. Examples of alleged duplication are discussed, such as gathering of statistics, map making, scientific research, engineering work, and administration and investigation in the interest of public health. Although there is undoubtedly room for improvement in many cases, nevertheless in most cases there is good coöperation among the various departments and bureaus concerned, and much of the so-called duplication is really only apparent. It is believed that the work is more efficiently carried on in most cases than if it were concentrated in one place.

The value of research and standardization in making the government efficient and effective is pointed out. It is important to have as complete knowledge as possible concerning the problems encountered in the administration of the government, such as those involved in the construction of public buildings and other public works, in making contracts for supplies, in inspecting and adopting deliveries on contracts, in collecting the revenue, in discussing proposed legislation, in enforcing the law. The coöperation of the Federal Government with states and municipalities, so as to make such information available to all, would be helpful to good government. The military value of such research is considerable, as it would aid in purchases of instruments and materials and in the solution of military problems, and would develop scientific methods, equipment and men available for research in time of war.

The coöperation of the government in the work of preparing safety codes, building codes, and public utility standards, which are adopted and enforced by states and municipalities and used by the industries as standards of good practice even if not formally adopted by any administrative agency, is of the greatest importance. These codes are sometimes prepared by a single state or city and sometimes coöperatively, by the joint effort of the government, engineering societies, the industrial and public utility interests, and the states and municipalities. The problems are much the same in all the states and hence the coöperative method is economical and favors standardization; many states and cities and many industries can thus use the same codes and standards, or substantially the same, and so avoid duplication of effort and confusion of practice. Such work is constructive and helpful,

promotes industrial and governmental efficiency and should be encouraged and developed.

Industrial research and standardization for the purpose of improving methods and reducing waste in the industries is another kind of creative and wealth-producing work which the government should carry on more actively. The problem of increasing production and reducing costs, without increasing the length of the working day or reducing wages below an American standard of living, is a fundamental one. Such work will stimulate industry, promote our foreign trade, elevate business methods and bring about a better understanding between the government and business. Coöperation in business is increasing constantly, and coöperation between the government and business in improving methods and increasing efficiency in manufacturing and distribution, and in solving many other problems of business can not fail to be beneficial and profitable.

CONCLUSION

Probably everyone will grant that the government should do more than it has yet done to raise the standard of its personnel, to improve its methods, to increase its efficiency, to develop the public domain, to coöperate with industry, to create wealth, to give the maximum of service to the people. As the war has greatly increased the national budget, and the industrial depression has emphasized the demand for a reduction of the burden of taxation, the question arises as to whether the government can do the things that are needed. In this discussion no opinion is expressed as to the relative proportion of the total expenditures that should properly be devoted to military and civil purposes. It is, however, urged that the primary func-

tions of government,—legislative, executive and judicial,—are essential, and the agencies through which they are exercised should be made as efficient and effective as possible; that research, education and development are not only necessary to the public welfare and helpful to commerce and industry, but they are creative and wealth-producing, and tend to lighten rather than increase the burdens of taxation; and that the money put into public works (if wisely expended) is a profitable investment which aids materially in the development of the public domain and

the country as a whole. As all of these activities together represented in 1920 only 6.4 per cent of the taxes collected, they would amount to less than 20 per cent of the whole, if the expenditures for these purposes were doubled and the total of taxes collected were reduced by one-third. That would make possible a great increase in the constructive service and welfare work of the government, and still leave more than three billion dollars per year for military expenditures, pensions, interest and the reduction of the public debt.

Sources of Revenue of the States with a Special Study of the Revenue Sources of Pennsylvania

By M. L. FAUST

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THE perplexing problem of providing increased revenues to meet the constantly growing expenditures of the state governments without disturbing their economic tranquillity is the perennial nightmare of the legislators of our several commonwealths. If the states are to continue expanding their activities, as public opinion is demanding, additional sources of revenue must be found or old sources must be rendered more productive. It may be a valuable aid, therefore, to a correct appreciation of this problem to demonstrate with the aid of simple diagrams the present revenue sources of the states, the per capita contribution, and the relative productivity of each source. Furthermore, it may prove of particular interest to supplement this study of the states with a special study of the revenue system of Pennsylvania, certain features of which are both unique and suggestive.

Table I presents an analysis of the

aggregate revenue receipts of the states for the year 1919. These statistics incorporate the revenues collected for the fiscal years ending on some date between July 1, 1918 and June 30, 1919, and are the latest statistics available for this purpose.

It is evident in the first place from chart I that the states are largely dependent upon taxation for their revenue, since taxes yielded 78.2 per cent of the total.

Only seven states in 1919 received less than 60 per cent of their revenue receipts from taxes. In this group were Minnesota, Missouri, North Dakota, South Dakota, Montana, Idaho, and Wyoming. States deriving almost 90 per cent or more of their revenue receipts from taxes were Pennsylvania, New York, New Jersey, and Illinois. The general departmental receipts rank next in importance to taxes and comprise those amounts received by the states in exchange for certain

TABLE I—REVENUE RECEIPTS OF STATES, 1919

	Per Capita	Per Cent
Taxes:		
1. General property.....	\$237,234,778	2.26
2. Special property.....	104,922,552	.99
3. Business.....	122,667,336	1.24
4. Non-business license.....	48,025,730	.38
5. Other special taxes.....	13,554,063	.13
6. Poll.....	2,114,708	.02
	\$527,819,167	5.02
		78.2
Other Than Taxes:		
7. Earnings of general departments.....	\$83,203,459	.79
8. Highway privileges, rents, interest.....	36,513,164	.35
9. Subventions, grants, donations.....	17,093,649	.16
10. Special assessments.....	4,408,216	.04
11. Earnings of public service enterprises.....	3,306,147	.03
12. Fines, forfeits, escheats.....	2,873,400	.03
	\$675,217,202	6.43
		100.

services performed, including principally the fees collected by state officials, charges for the regulation of

Highway privileges and rents are of comparative insignificance, but the interest collected by the states on their general and special funds forms a considerable item, accounting for 4.2 per cent of the total. The source designated on the chart as "subventions, etc." includes subventions, grants, donations, and pension assessments, although subventions are by far the most important item, and refer to the contributions made by the national government to the states chiefly for educational purposes and for the relief of indigent soldiers and sailors, highways, experiment stations, and agricultural extension. Donations are contributions made by private individuals and corporations generally for charitable and educational activities, and pension assessments refer to amounts collected from state employes or public school teachers and other persons who may participate in the benefits enjoyed from such funds. The amounts from these various sources are inconsiderable, however, yielding only 2.5 per cent of the total receipts, of

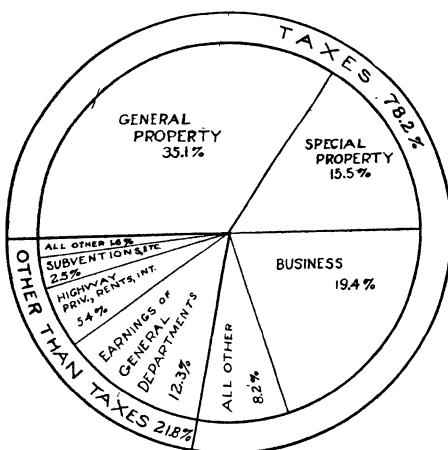


CHART I

Per Cent Distribution of Aggregate Revenue Receipts of States, 1919¹

¹ See *Financial Statistics of States, 1919*.

financial institutions and other corporations, income received in developing agriculture, and amounts collected by the states' charitable and corrective institutions and hospitals.

which almost 2 per cent were the federal subventions. The source designated as "all other" includes receipts from the earnings of public service enterprises, amounts accumulating from fines, forfeits, and escheats, and sums collected by special charges and special assessments.

STATE TAXES

In analyzing the most important source of revenue—taxation—reference must be made to the charts and tables to understand the significance of the taxation receipts, both in their relation to the entire revenue system and also in their relation to the aggregate taxation receipts. The traditional general property tax continues as the bulwark of the revenue systems of the states, supplying 45 per cent of the taxation receipts and 35.1 per cent of all the revenue receipts. As defined by the Census Bureau the general property tax includes "all direct taxes upon real property and taxes upon other property which are apportioned and levied by substantially the same

methods employed in apportioning and levying taxes upon privately owned real property." As a source of state

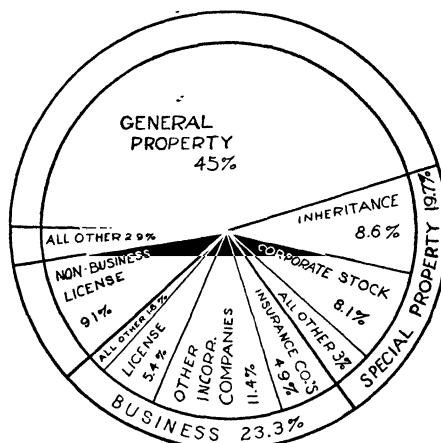


CHART II

Per Cent Distribution of Aggregate Taxation Receipts of States 1919¹

¹ *Financial Statistics of States, 1919.*

revenue the general property tax has been completely abandoned by Pennsylvania and Delaware, and California realizes only a very insignificant sum from this same source. In all the

TABLE II—TAXATION RECEIPTS CLASSIFIED

1. General property	\$237,234,778	45.0
2. Inheritance	45,770,365	8.6
Corporate stock	45,525,564	8.1
Savings bank	6,031,201	1.1
All other	9,895,422	1.9
3. Insurance companies	25,954,062	4.9
Other incorporate companies	60,210,823	11.4
Income of individuals	5,278,284	1.0
Liquor licenses	14,228,151	2.8
Business licenses	13,780,307	2.6
All other	3,215,709	0.6
4. Motor	43,950,522	8.3
Hunting and fishing	3,250,506	.6
Dog licenses	728,558	.1
Permits	93,251	.1
All other	2,893	...
5. Other special taxes	13,554,063	2.5
6. Poll tax	2,114,708	.4
<i>Total</i>	\$527,819,167	100.

TABLE III—REVENUE RECEIPTS OF PENNSYLVANIA¹

		<i>Per Capita</i>	<i>Per Cent</i>
Receipts from Taxes:			
1. Special property.....	\$27,350,941	3.11	57.9
2. Other special taxes.....	974,024	.11	2.1
3. Business.....	9,194,410	1.03	19.4
4. Non-business license.....	4,338,895	.51	9.3
		<hr/>	<hr/>
	\$41,858,270	4.76	88.7
All Other Receipts:			
5. Fines, forfeits, etc.....	\$141,181	0.02	0.3
6. Subventions, gifts.....	325,726	0.04	0.7
7. Earnings of general departments.....	4,662,437	.53	9.9
8. Interest.....	214,619	.02	0.4
		<hr/>	<hr/>
<i>Grand Total</i>	\$47,202,233	5.37	100.

¹This report includes the fiscal years ending between July 1, 1918, and June 30, 1919. Since the Pennsylvania fiscal year ends November 30, the data in this report for Pennsylvania are for the fiscal year 1918.

other states, the general property tax not only furnishes a considerable portion of the revenue, but in twenty-

of the amount of corporate stock or corporate indebtedness, taxes upon the deposits of savings banks that are in excess of a certain amount, and inheritance taxes. This source supplied 15.5 per cent of the total revenues and 19.7 per cent of the taxation receipts of the states in 1919. All the states with the exception of Wyoming and New Mexico levy special property taxes. There are only a few states, however, which use this source intensively. Of the total \$104,222,552 received from this tax 48.1 per cent was collected in Pennsylvania and New York.

The most important single item under the special property taxes is the tax on inheritances. The inheritance tax netted 8.6 per cent of all the taxes received by the states in 1919. Nebraska, South Carolina, Florida, and Alabama are the only states that received no revenue from this source. It is most productive in New York where it yielded 18 per cent of the receipts to that state from taxes. The corporate stock tax is not used so extensively as the tax on inheritances,

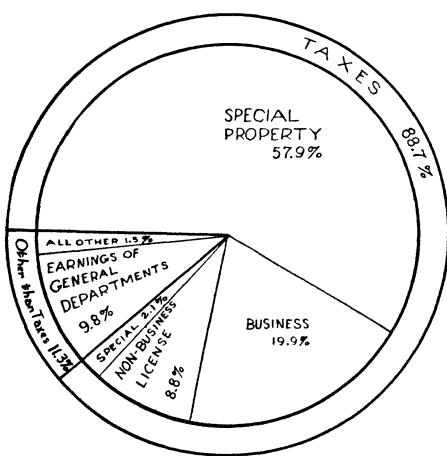


CHART III

Per Cent Distribution of Revenue Receipts of Pennsylvania¹

¹*Financial Statistics of States, 1919.*

three of the states two-thirds of the taxation receipts are derived from it.

Special property taxes include principally taxes upon property of corporations levied generally upon the basis

yet the receipts from the corporate stock tax approximate the total from inheritance taxes, furnishing 8.1 per cent of the state taxes. Pennsylvania alone collected more than one-third of this sum. Massachusetts, Connecticut, Rhode Island, New York, Ohio, Missouri, and California collect large amounts from this source. But in most of the western and southern states, the amounts received are negligible, and fifteen states do not even use the tax. The tax on the deposits of savings banks is found in the New England states, and New York, Delaware, and Maryland. Massachusetts, which uses this tax to a far greater degree than any other state, realized \$1,926,090 from it in 1919. The source "all other" under special property taxes on chart II (*p.* 115) includes in addition to the tax on savings banks, which netted 1.1 per cent of all state taxes, taxes in certain states on the properties of telegraph, telephone, insurance, and street railway companies

and of building and loan associations, specified loans, investments, tonnage of vessels, and secured debt, all yielding

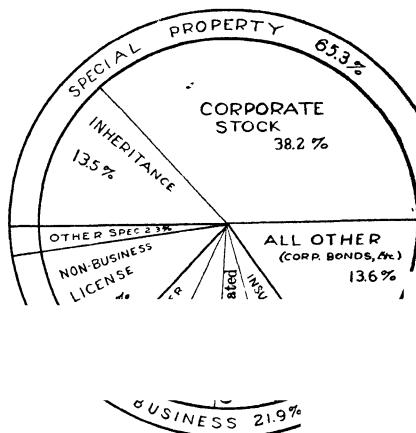


CHART IV
Per Cent Distribution of Taxation Receipts of
Pennsylvania 1918
Financial Statistics of States, 1919.

the remaining 1.9 per cent of the special property taxes.

TABLE IV—REVENUE RECEIPTS FROM TAXES IN PENNSYLVANIA, 1918

1. Special Property			
Inheritance.....	\$5,646,538		13.5
Corporate Stock.....	15,993,907		38.2
All other (corp. loans).....	5,710,496		13.6
	<hr/>		<hr/>
	\$27,350,941		65.3
2. Business			
Licenses (other than liquor).....	970,868		2.4
Liquor traffic.....	1,540,077		3.7
Insurance companies.....	2,327,140		5.5
Other incorporate companies (gross receipts tax).....	2,237,750		5.2
All other.....	2,118,575		5.1
	<hr/>		<hr/>
	\$9,194,410		21.9
3. Non-Business License			
Hunting and fishing.....	\$309,631		.7
Motor registration.....	4,029,264		9.8
	<hr/>		<hr/>
	\$4,338,895		10.5
4. Other Special Taxes			
(Bonus on charter).....	974,024		2.3
	<hr/>		<hr/>
<i>Total Tax Receipts</i>	\$41,858,270		100.

The business taxes are becoming of increasing importance today in the revenue systems of the states. These taxes are exacted from persons and corporations in proportion to the volume of their business or by reason of some business activity in which they are engaged. At present they are supplying one-fifth of the total revenues of the states and 23.3 per cent of the taxation receipts. In New York, business taxes furnish 35 per cent of all the taxes collected; in Ohio 44 per cent; in Minnesota 45 per cent; in California 53 per cent; in Delaware 61

most states the business taxes are a favorite means employed to exact contributions for the public purse from the corporations. These taxes are levied in a variety of ways, usually proportionate to the volume of business of the corporation, as for example the gross receipts tax of Pennsylvania. The 1 per cent yielded by the business tax classified as income of individuals was collected in nine states. Connecticut alone realized \$2,595,835 from this source, more than one-half of the total amount received.

The license business taxes consist of

TABLE V—ANALYSIS OF THE VARIOUS SOURCES OF TAXATION RECEIPTS IN PENNSYLVANIA, 1903-1919

	<i>Total</i>	<i>General Property</i>	<i>Special Property</i>	<i>Other Special Taxes</i>	<i>Business</i>	<i>Non-Business</i>
1903.....	\$18,333,027	19.2	48.7	...	32.1	....
1913.....	27,502,417	4.5	68.6	...	24.7	2.2
1915.....	29,930,502	....	68.	...	26.	6.
1916.....	30,437,716	....	66.7	1.3	25.	7.
1917.....	35,039,290	....	66.2	2.5	23.5	7.8
1918.....	29,911,027	....	55.	5.2	27.9	11.8
1919.....	41,858,270	....	65.3	2.3	21.9	10.5

per cent. These taxes also find intensive use in Maine, Connecticut, Missouri, Maryland, Virginia, Louisiana, Oklahoma, Montana, and Mississippi. Certain states, however, chiefly Michigan, Illinois, New Jersey, Wisconsin, Iowa, Texas, and Colorado depend upon these taxes for only a comparatively small amount of their revenues.

The importance of the various items under the business taxes are clearly illustrated in chart II and table II (*p. 115*) showing that insurance companies, other corporations, business licenses, and other business taxes yielded 4.4 per cent, 11.4 per cent, 5.4 per cent, and 1.6 per cent respectively. Only three states, Michigan, Virginia, and Nevada failed to levy any taxes on the business of insurance companies. In

those taxes levied with the issuance of a permit to engage in certain business activities. The most important are the taxes levied with the issuance of liquor licenses or licenses to persons in professional or mercantile occupations. In some states license business taxes also include such license taxes as are collected from telephone, telegraph and steamboat companies. Even as late as 1919 the liquor traffic furnished 2.8 per cent of the taxation receipts of the states. The source designated as "all other" under business taxes refers to those sums realized in certain states from taxing the proceeds of mines, from specified fees and commissions, and from taxing the receipts of dealers in specified products.

Non-business license taxes, which

have become an important source during the last decade only, are taxes other than upon business levied for purposes of regulation. By far the most important of these taxes is the license tax exacted from owners of motor vehicles. Non-business license taxes in 1919 supplied 9.1 per cent of the total taxation receipts to states, motor licenses alone accounting for

of this amount \$7,799,041 were collected in New York. These taxes are chiefly incorporation or organization taxes that are levied at specified rates on the capital stock of corporations at the time of their organization. They also include taxes on transfers of stock and on the recording of wills, deeds, and mortgages, and on properties of express, telegraph, and sleeping-car companies.

TABLE VI—AGGREGATE REVENUE RECEIPTS FROM VARIOUS SOURCES, 1913

	Per Capita	Per Cent
Taxes:		
General property taxes.....	\$282,077,069	3.29
Poll taxes.....	5,817,855	.07
Special property taxes.....	805,419	.01
Business taxes.....	92,866	....
Liquor licenses.....	6,577,556	.08
Other business licenses.....	1,475,993	.02
Non-business license taxes.....	1,701,578	.02
	<hr/>	<hr/>
	\$298,548,336	3.49
		80.7
Other Than Taxes:		
Special assessments, charges.....	9,323,078	.11
Fines, forfeits, escheats.....	3,531,537	.04
Highway privileges.....	164,768	....
Interest and rents.....	5,531,485	.06
Subventions and grants.....	23,682,813	.28
Donations and gifts.....	283,233	....
Earnings of public service enterprises.....	413,329	....
Earnings of general departments.....	28,564,467	.33
	<hr/>	<hr/>
<i>Grand Total</i>	\$370,043,046	4.32
		100.

8.3 per cent. Hunting and fishing licenses, dog licenses and permits of various kinds yielded the remaining 8 per cent from this source.

The other 2.9 per cent of the taxation receipts as yet not accounted for are the receipts from the poll tax and other special taxes, the former furnishing .4 per cent and the latter 2.5 per cent. Ten states still use the poll tax for securing state revenues, although only Indiana, Virginia, West Virginia, Georgia, and Texas make this tax a productive source. In 1919 other special taxes yielded \$13,554,063, and

An intensive study of the present revenue sources of the State of Pennsylvania reveals many striking contrasts and interesting differences in the methods employed by this state to raise revenue in comparison with the methods employed by the states in general. This can easily be apprehended by comparing tables I and II and charts I and II with tables III and IV and charts III and IV. Taxation and the general departmental receipts furnish 98.5 per cent of Pennsylvania's revenue receipts, so that these are the only sources really necessary to consider in

studying the revenue sources of this state. Since the departmental receipts, however, are of relative unimportance in comparison with taxation, it would be of little value and interest to include a detailed analysis of this source.

The unique feature of the revenue system of Pennsylvania is the complete absence of the general property tax. Since 1913, when the state relinquished the general property tax to the cities, counties, and other municipal corpora-

Because of constitutional provisions and court decisions the Legislature of Pennsylvania cannot pass a law providing for a graduated inheritance tax. The present law, therefore, provides a levy of two per cent and five per cent on the clear value of all property passing to the lineal and collateral descendants, respectively. The only exemptions permitted are the debts of the decedent and the expenses of administration.

TABLE VII—AGGREGATE REVENUE RECEIPTS OF COUNTIES OF PENNSYLVANIA, 1918¹

Taxes:

General property.....	\$12,552,663	1.94	71.1
Liquor licenses.....	423,357	.07	2.4
Other business licenses.....	4,710	....	....
Non-business licenses.....	138,483	.02	.8
	\$13,119,213	2.03	74.3

Other Than Taxes:

Fines, forfeits, escheats.....	160,082	.02	.9
Highway privileges.....	60,147	.01	.3
Interest and rents.....	213,274	.03	1.2
Subventions and grants.....	2,159,941	.38	12.2
Earnings of general departments.....	1,920,069	.30	11.0
Earnings of public service enterprises.....	7,337	....	.1
	\$17,640,063	3.72	100.

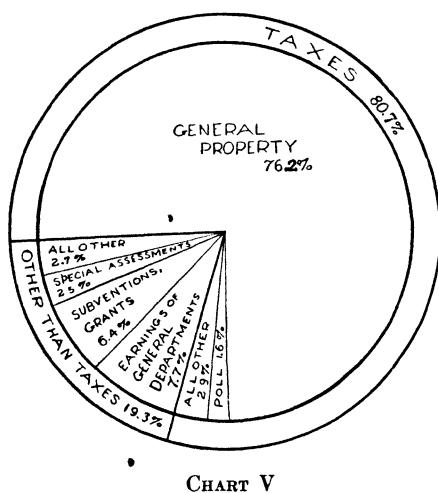
¹ *Wealth, Debt, and Taxation* 1918 does not include Philadelphia County which is co-extensive with Philadelphia City.

tions, the state has relied upon the special property taxes for the larger portion of its revenue. The total revenue receipts in 1918 amounted to \$47,202,233 and of this sum \$27,350,941 or 57.9 per cent came from special property taxes. The receipts from special property taxes represented 65.3 per cent of the taxation receipts and a per capita revenue of \$3.11. Included in the special property taxes in Pennsylvania are the tax on inheritances, the corporate stock tax, and the tax on corporate loans. These three taxes produce 13.5 per cent, 38.2 per cent, and 13.6 per cent of the taxation receipts, respectively.

By far the most important single element of the entire revenue system of Pennsylvania is the capital stock tax. The rate of this tax is five mills and is levied upon the actual value of the whole capital stock of every joint-stock association, limited partnership, and corporation doing business within the state. The rate on bank stock is four mills, on the stock of fire and marine insurance companies three mills, and on liquor distilling and selling companies ten mills. It is essential to note, however, that this tax does not apply to corporations organized for manufacturing purposes, since they are exempted from paying this

tax on stock actually invested in and exclusively employed in manufacturing within the state. The corporate bond tax is levied on all bonds and evidences of indebtedness of private and municipal corporations held by residents of the state. It is made the duty of the treasurers of corporations issuing such bonds to deduct four mills

approximately one-third of the amount collected from the special property taxes. One-fourth of the business taxes were paid by the insurance companies. The taxes of these companies amounted to 5.5 per cent of all the money collected from taxes. Domestic insurance companies are required to pay a tax of eight mills and foreign insurance companies a tax of two per cent. In both instances the levy is made annually upon the gross premiums received from business done within the state. By far the larger amount is necessarily paid by the foreign companies. The other incorporated companies referred to under the business taxes include chiefly transportation companies, electric light, telegraph and telephone companies, and express companies, which are required to pay annually a tax of eight mills upon the gross receipts received within the state. The 5.5 per cent received from this source was paid largely by the railroads.



Per Cent Distribution of Aggregate Revenue Receipts of Counties of United States¹
Wealth, Debt, Taxation 1913.

on every dollar of interest paid. The capital stock tax is exceedingly productive, yielding 38.2 per cent of the taxation receipts, or 33.8 of the total revenue receipts. The source "all other" under the special property taxes, including principally the corporate bond tax, furnishes the remaining 13.6 per cent of the special property taxes.

The business taxes in Pennsylvania are of about the same degree of importance in the state's revenue receipts as they are in the aggregate revenue receipts of all the states. The total from business taxes amounted to \$9,194,410 in 1918, which represented 21.9 per cent of the taxation receipts and a per capita contribution of \$1.03,

The business license taxes were received mostly from the liquor traffic, but they also include license taxes levied on professional or mercantile occupations, such as merchants, peddlers, auctioneers, brokers, and private bankers. The gross receipts of persons engaged in mercantile occupations are also taxable, and the source designated as "all other" under the business taxes includes these receipts. Retail vendors of goods (in addition to their license tax) are required to pay 1 mill on each dollar of the gross volume of business transacted annually. Wholesale vendors are required to pay one-half mill.

The non-business license tax produced in 1918 a total of \$4,338,895 of which more than nine-tenths was derived from motor licenses. The source "other special taxes" in Pennsylvania refers to the tax generally

termed as the bonus on charters. Corporations created under the laws of the state must pay a bonus of one-third of one per cent upon the capital stock authorized. In case there is any subsequent increase of capital stock the tax must also be paid on such increase.

Chart IV and table IV (*p.* 117) give an analysis in diagrammatic form of the sources of the taxation receipts and their relative productivity just described.

From the analysis in table V (*p.* 118) it is evident that the present revenue sources of Pennsylvania have been utilized for an extended period of years. The most significant change came in 1913 when the state definitely abandoned the general property tax. This change in the state's revenue system was not, however, sudden and unexpected, for in the years preceding 1913 the state was gradually relinquishing its dependence on this source by continually increasing the sums appropriated to the counties from this tax. As early as 1903 the special property taxes were the vital element in the state's taxation system. Although fluctuations are perceptible in the amounts collected from year to year, they are not consistent enough to justify the conclusion that there is a trend away from the special property taxes. It is not probable that the revenue from other special taxes will increase or be subject to important changes, since this is chiefly the organization or incorporation tax, which increases and decreases in productivity with periods of business expansion and depression. If we except the year 1918, during which period owing to war conditions business was tremendously stimulated, there is apparent a slight decline in the income derived from business taxes. The rapid increase in motor vehicles accounts for the sud-

den growth of the non-business license tax, and this tax is unquestionably a source that will remain a permanent and productive source for state revenues. It has compensated for the slight decline in the special property and the business taxes.

Table VI (*p.* 119) analyzes the aggregate revenue receipts of all the counties in the United States for the year 1913. These are the latest statistics available for such an analysis, although it is known that the sources and their relative productivity have not undergone any considerable change since that date. The counties, just as the states, are largely dependent on taxes for their revenue receipts. The principal sources other than taxes are the subventions and grants received by the counties from the state governments and the general departmental receipts which include fees and charges collected by the county for certain services rendered or special benefits conferred. Under the revenue receipts from taxation little comment is necessary since the general property tax is practically the sole source, yielding 76.1 per cent of the revenue receipts and a per capita amount of \$3.29.

The counties of Pennsylvania rely on the general property taxes to about the same degree that this tax is generally relied upon by all the counties of the United States. Since the state in 1913 was still using the general property tax to a limited extent, recent statistics, because of the entire abandonment of this tax by the state, will show a larger dependence on this tax by the counties. In addition to the general property tax the counties of the state secure a considerable portion of their revenue receipts from the state subventions and the general departmental receipts. These sources furnish 12.2 per cent and 11 per cent, respectively.

Sources of Revenue in American Cities

By LANE W. LANCASTER

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IT has long been a commonplace among students of taxation that the provision of revenues and the wise control of expenditures of city governments constitute a vital problem in the field of public finance. Briefly stated, the problem has been to provide by equitable means enough revenue to permit efficient performance of the many new functions which public opinion has devolved upon local governments. The progressive urbanization of our people has accentuated this problem while it has supplied us with proofs of its seriousness.

In 1909 there were in the United States 158 cities with populations exceeding 30,000 and with an aggregate population of 25,600,000. Of these 158 cities, 16 had populations in excess of 300,000. Financial statistics for that year show per capita revenue receipts of \$26.21 and governmental-cost payments of \$30.11 per capita. By 1916 there were 213 such cities with an aggregate population of over 32,000,000. Per capita receipts and payments were \$30.83 and \$33.11 respectively. In 1918, the latest year for which figures are available, 227 cities over 30,000 population had a total population of well over 34,000,000. Each of the inhabitants of these cities made a contribution to the city's treasury of \$32.75 and bore as his share of expenditures a burden of \$34.16. In normal times expenditures of local governments amount to 45 per cent of the expenditures of all governmental units, federal, state and local. An inquiry into the sources of revenue of American cities should, therefore, be of more than ordinary interest.

During 1918 the revenue receipts¹ of the 227 cities with a population over 30,000 amounted to \$1,124,094,899. Table I shows the aggregate figures from each source and the per capita and per cent distribution of this total.

It will be seen from this table that "taxes" account for slightly over 70 per cent of all revenue receipts. By "taxes," as the term is used in the reports of the Census Bureau, is meant all compulsory revenues other than fines and special assessments. The term, therefore, includes general and special property taxes, poll and business taxes and various license taxes, whether or not accompanied by the issuance of a permit, and has this meaning wherever used in this paper. Of the total of over \$790,000,000 received from "taxes," nearly \$722,000,000, or 91.3 per cent, is derived from taxes on property. Of this latter sum over \$705,000,000 is produced by the general property tax, the remaining \$16,000,000 being secured from special property taxes. The latter consisted largely of taxes on bank stock and corporations, nearly three-fourths of which was collected by Massachusetts and New York cities. In fact, taxes on property accounted for 64.2 per cent of all revenue receipts. Over \$66,000,000 was produced by business and license taxes, the larger part of this total

¹ The term "revenue receipts," as used by the Census Bureau, includes those sums accruing to the city on revenue account and does not include such receipts as arise from the sale of investments and supplies. These latter are known as "non-revenue receipts." "Revenue receipts" must not be regarded as net, for the governmental cost payments for the carrying on of the recognized municipal functions must be charged off against the "revenue receipts."

TABLE I

TOTAL AGGREGATE REVENUE RECEIPTS FROM EACH SOURCE WITH PER CENT AND PER CAPITA DISTRIBUTION OF THESE TOTALS

Source	Total	Per capita	Per cent
Taxes.....	\$790,577,487	\$23.03	70.3
Special assessments.....	72,673,785	2.12	6.5
Fines, forfeits and escheats.....	5,753,081	0.17	0.5
Subventions and grants.....	41,277,908		
Donations, gifts.....	5,209,570	1.35	4.1
Earnings of general departments.....	29,526,180	0.86	2.6
Highway privileges.....	15,796,393		
Rents.....	12,538,024	1.82	5.6
Interest.....	34,247,826		
Earnings of public service enterprises.....	116,494,645	3.39	10.4
<i>Total</i>	\$1,124,094,899	\$32.75	100.0

being derived from taxes on the liquor traffic.²

Only one item in table I shows a decrease from the figures for 1917. Receipts from special assessments fell off nearly \$11,000,000, a decline which is reflected in the figures for expenditures for outlays in 1918. Receipts from this source were less in 1918 than in any year since 1907, largely because of war conditions affecting the construction of street improvements.

Chart I is intended to show in graphic form the per cent distribution of the principal revenue receipts for all cities with populations of 30,000 and over.

Table II presents the per cent figures for each of the five groups of cities reporting to the Census Bureau and the same figures for all cities. These groups are: (1) Cities over 500,000; (2) those between 300,000 and 500,000; (3) 100,000 to 300,000; (4) 50,000 to 100,000; (5) 30,000 to 50,000.

This table shows that, in general, taxes are a more important source of revenue in large cities than in the smaller ones, the comparatively lower rate in the three last groups being offset by proportionately greater re-

turns from such sources as special assessments and subventions. The earnings from public service enterprises are also a more important source in the smaller communities. The returns from such sources as highway

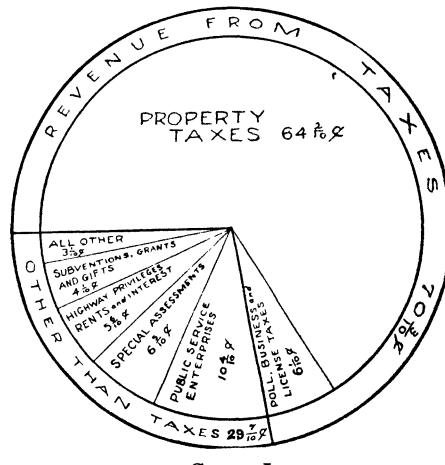


CHART I
Where Every Dollar of City Revenue Comes From

privileges, rents and interest are naturally considerably higher in the larger cities.

Chart II shows graphically the relative per capita figures for all cities over 30,000, and for each of the five groups.

² For a definition of business taxes see p. 118

TABLE II

PER CENT DISTRIBUTION OF THE PRINCIPAL REVENUE RECEIPTS FOR EACH OF THE FIVE GROUPS OF CITIES OVER 30,000 POPULATION

Group	Taxes			Special Assessments	Fines Forfeits and Escheats	Subventions, Grants and Gifts	Earnings, General Departments	Highway Privileges, Rents and Interest	Earnings, Public Service Enterprises
	Property	Poll	Business and License						
I	66.7	...	5.9	4.7	0.4	2.0	2.6	7.7	9.8
II	59.6	0.1	6.2	7.9	0.4	8.3	3.0	4.2	10.4
III	64.2	0.4	5.4	8.6	0.6	4.5	2.5	3.6	10.2
IV	60.9	0.5	7.2	8.7	0.8	6.9	2.2	2.6	13.0
V	61.0	0.5	7.2	8.7	0.9	5.6	2.6	2.1	11.3
All	64.2	0.2	5.9	6.5	0.5	4.1	2.6	5.6	10.4

This chart demonstrates the fact that, generally speaking, the larger the city the greater the per capita cost of government. The only exception to this generalization is seen in the slight increase of the fifth group over the figure given for the fourth.

Table III presents the aggregate of receipts from taxes of all sorts with the average per cent and per capita figures for all cities over 30,000 population.

In spite of the fact that 100 of the 227 cities reported receipts from special property taxes, this table shows that for local purposes the general property tax continues to be the mainstay of the tax system. In states where separation of revenues has been attained, the revenue from special property taxes is reserved to the state governments. Poll taxes, although now an insignificant source of revenue, continue to be collected by 95 cities in 22 states. More than half the \$2,014,952 is paid in New England cities. Of the total of \$59,645,759 from business taxes, \$35,576,383, or 59.7 per cent, was collected from the liquor traffic.

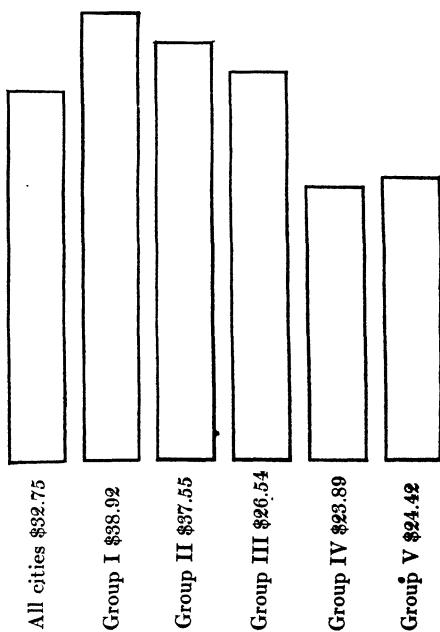
Chart III illustrates the distribution

of receipts from the various kinds of taxes.

Commercial revenues arising from the operation of public service enter-

CHART II

Per Capita Revenue Receipts for all Cities and for Each of the Five Groups of Cities over 30,000 Population



prises are in most cases the largest single source of revenue receipts after taxes. In 1918 the lands, buildings and equipment of such enterprises operated by the cities of the United States with populations over 30,000 were valued at \$1,669,460,643. The earnings of these enterprises totaled \$116,494,645 or 10.4 per cent of all revenue receipts, and represented a per capita contribution of \$3.39. Table IV shows the aggregate earnings of the chief public service enterprises with the percentage of the total receipts from this source chargeable to each.

Water systems, one of the oldest of municipal utilities, continues to be the most productive of receipts, accounting for more than three-fourths of all commercial receipts. Of the 227 cities over 30,000 population for which census figures are available, only twenty-two owned their own electric plants and only five made their own gas, although private plants for these purposes represented several billion dollars of invested capital.

The earnings from municipal mar-

kets and scales which account for 1.4 per cent of all commercial receipts are scarcely more important than the re-

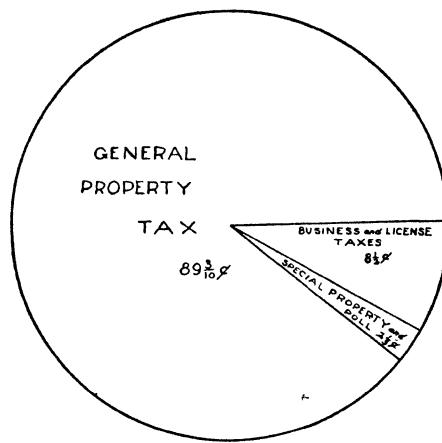


CHART III

Where Every Dollar of Taxes Comes From

ceipts from municipal burying-grounds — a significant fact indeed. The last item in the list above includes such miscellaneous sources as bridge and ferry tolls and the earnings of city farms, ice plants and abattoirs.

TABLE III

TOTAL RECEIPTS FROM TAXES OF ALL SORTS WITH PER CENT AND PER CAPITA DISTRIBUTION

Source	Total	Per cent of all Taxes	Per capita
General property tax.....	\$705,723,158		
Special property tax.....	16,269,058	{ 91.3	\$21.03
Poll taxes.....	2,014,952	0.2	0.06
Business taxes.....	59,645,759		
On liquor traffic.....	35,576,383	{ 8.5	1.94
Other than liquor traffic.....	24,069,376		
Non-business license.....	6,924,560		
		100.00	23.08

Special assessments and subventions from state and county governments are the principal remaining sources of revenue receipts in American cities. In 1918, 215 of the 227 cities over 30,000 population reported receipts from special assessments totalling \$72,673,785. While this source accounted for only 6.5 per cent of all revenue receipts, many cities received as high as 20 per cent, the higher figures being more common in the group of cities with populations between 30,000 and 50,000.

Table V gives the aggregate and per cent figures with the source and object of payment of subventions for the five groups of cities.

A study of the sources of revenue of the 227 cities as distributed in four geographical groups reveals some interesting facts as set forth in table VI. Group I includes 36 cities in New England; group II, 109 cities in the middle and central states north of the Ohio and Potomac and east of the Mississippi; group III, 43 west of the Mississippi excluding Louisiana, Ar-

TABLE IV

TOTAL AND PER CENT DISTRIBUTION OF THE EARNINGS OF PUBLIC SERVICE ENTERPRISES

<i>Source</i>	<i>Total</i>	<i>Per cent</i>
Water supply systems.....	\$90,139,705	78.1
Electric light and power.....	8,315,960	6.9
Gas supply systems.....	1,418,511	1.2
Markets and scales.....	1,758,480	1.4
Docks, wharves, landings.....	7,786,509	6.6
Cemeteries and crematories.....	1,049,706	0.8
Public halls.....	172,862	0.1
Subways for pipes, etc.....	311,555	0.2
All other.....	5,541,357	4.7
<i>Grand Total</i>	\$116,494,645	100.0

Subventions from state and county governments totalled \$41,277,908 in 1918. Of this amount \$35,988,403, or 87.2 per cent was for education. State governments contributed \$34,820,537, or 84.3 per cent of the total. All but two cities reported subventions. The largest per cent figure is found for cities in the group having populations between 300,000 and 500,000, but this is due to the large grant made to Washington, D. C., by the Federal Government which in 1918 constituted 39.8 per cent of all the revenue receipts of the city. This extraordinary exception aside, subventions seem to be of greater importance in the fourth group of cities and, as we shall see, are of most importance in the southern cities.

kansas and Texas; group IV, 39 cities in the South, east of the Mississippi, as well as those in Louisiana, Arkansas and Texas, which belong more properly to the South than to the West. The per cent figures are for the five principal sources of revenue and in all cases account for more than 90 per cent of the aggregate revenue receipts.

Several features of this table are worthy of notice. Taxes on property form a considerably larger proportion of the receipts of New England cities than is the case in the southern group. The statement often made concerning the prevalence of business taxes in the South would seem to be substantiated by the figures in this table, although the discrepancy between the figure for this source and the corresponding

figure in the New England group is not so large as might be expected. The other two groups show per cent figures for this source smaller than the

those of Texas receive least from this source.

Special assessments are much more productive in the western states than

TABLE V

AGGREGATE AND PER CENT FIGURES WITH SOURCE AND OBJECT OF PAYMENT OF SUBVENTIONS FOR ALL CITIES OVER 30,000 AND EACH OF THE FIVE GROUPS OF CITIES, 1918

Group	For Education		Other Grants		Per cent for Education	Per cent from States
I	State 8,265,298	County	State 248,099	County		
	II 9,280,098	26,097	4,466,333	.....	
	III 5,060,306	1,929,744	28,720	136,513		
	IV 4,093,790	2,193,249	8,665	63,236		
	V 3,075,914	1,463,907	193,314	144,625		
Total	30,375,406	5,612,997	4,945,131	344,374	87.2	84.3

average for all cities. Many of the southern cities receive as much as ten per cent of their total receipts from this source and a few a much higher proportion. Thus, New Orleans receives 10.5 per cent from such taxes; Mobile 12.6 per cent; Norfolk 14.6 per cent; Montgomery 19.9 per cent and Birmingham 21 per cent. Of all the southern cities

elsewhere, while they are least resorted to in New England. Their more extensive use in the West is to be explained in part at least by the prevalence of strict debt limitations on cities in the constitutions of those states which make municipal loans difficult, and by limitations on the tax rate which make payments for

TABLE VI

PER CENT DISTRIBUTION OF THE PRINCIPAL SOURCES OF REVENUE FOR ALL CITIES OVER 30,000 ARRANGED IN FOUR GEOGRAPHICAL GROUPS, 1918

Group	Property Taxes	Business and License Taxes	Special Assessments	Subventions and Grants	Earnings, Public Service Enterprises
I	68.6	7.4	1.8	1.2	12.0
II	62.9	5.7	8.9	5.8	10.8
III	58.7	4.4	11.0	7.8	10.5
IV	57.5	7.8	4.2	8.6	13.7
All cities	64.2	5.9	6.5	4.1	10.4

improvements from taxes out of the question.

Table VI shows also that receipts from the earnings of public service enterprises are least in the West and greatest in the South. Receipts from this source in the South make up a figure much higher than in any other section, being sufficient in many cases to depress the figure from the property tax to a very low point. For instance,

this source. While the New England cities are a close second to the southern cities in their returns from public service enterprises, they are the lowest of all the groups in the proportion of receipts from subventions, only 1.2 per cent being returned from this source. The western cities, for obvious reasons, also show a high return from subventions.

There were in the United States,

TABLE VII

PER CENT DISTRIBUTION OF THE PRINCIPAL REVENUE RECEIPTS FOR THE TEN LARGEST CITIES OF THE UNITED STATES IN 1918

City	Taxes			Special Assessments	Subventions and Grants	Highway Privileges, Rents and Interest	Earnings, Public Service Enterprises
	Property	Poll	Business and License				
New York.....	73.1	...	3.7	3.7	1.5	7.7	9.1
Chicago.....	56.5	...	10.0	10.0	2.2	7.6	8.9
Philadelphia.....	62.3	0.1	4.2	1.4	1.6	15.9	10.8
St. Louis.....	61.4	...	9.0	6.3	1.8	7.1	11.0
Boston.....	64.4	0.4	13.4	0.7	0.6	8.8	8.7
Cleveland.....	60.4	...	5.6	7.4	2.3	4.2	12.6
Detroit.....	67.9	...	2.7	8.1	5.9	1.7	8.1
Baltimore.....	60.4	...	6.9	2.1	3.0	10.6	12.5
Pittsburgh.....	73.2	...	3.7	1.7	2.6	4.0	10.5
Los Angeles.....	65.4	...	6.1	6.2	3.6	1.7	13.7

Richmond derives 22.3 per cent of its revenue receipts from public service enterprises and only 56.1 per cent from property taxes; Austin, Texas, 35.3 per cent from the former and only 53.3 per cent from the latter; while in Jacksonville the receipts from this source are actually higher than the return from the property tax, the figures being 39.4 per cent and 31 per cent, respectively.

The southern cities also show greater returns from subventions, 7.8 per cent of all their receipts being derived from

in 1918, ten cities with populations exceeding 500,000. The aggregate population of these ten cities was almost 15,000,000 or nearly half that of the 227 cities over 30,000 population. The real importance of these cities from the fiscal point of view is scarcely indicated by these figures, for their mere size makes necessary the public performance of a great variety of functions and imposes upon them ever-increasing expenditures. The wider social importance of taxation questions in these ten cities war-

rants some special consideration of their sources of revenue.

Table VII shows the per cent distribution of the principal sources of revenue for these ten cities.

This table considered in connection with Table I (*p. 124*) shows that the larger cities place much greater reliance upon property taxes than those of any other group, the per cent figure from this source being 2.5 per cent higher than the average of 64.2 per cent for

all cities over 30,000 population. It will be noticed that when the figure for property taxes falls below the general average for all cities, the difference is made up, as in Chicago, St. Louis, and Boston, by a much higher percentage of business taxes; or by a comparatively higher return from special assessments as in the cases of Chicago, Cleveland, and Detroit. For the group as a whole, taxes of all sorts account for 72.6 per cent of all revenue

CHART IV

Per Capita Revenue Receipts for All Cities and for Cities of the First Group with the Proportion Derived from Taxes of All Sorts

All cities \$32.75	Taxes \$23.03	All other \$9.72
Group I \$38.92	Taxes \$28.29	All other \$10.63
New York \$42.33	Taxes \$32.51	All other \$9.82
Chicago \$36.42	Taxes \$24.23	All other \$12.19
Philadelphia \$30.87	Taxes \$20.57	All other \$10.30
St. Louis \$31.74	Taxes \$22.36	All other \$9.38
Boston \$48.03	Taxes \$37.50	All other \$10.53
Cleveland \$34.54	Taxes \$22.82	All other \$11.72
Detroit \$42.12	Taxes \$29.72	All other \$12.40
Baltimore \$31.27	Taxes \$21.05	All other \$10.22
Pittsburgh \$39.99	Taxes \$30.75	All other \$9.24
Los Angeles \$46.70	Taxes \$33.40	All other \$13.30

receipts, a figure 2.3 per cent higher than the average for all cities. Of this the general property tax is by far the most important, special property taxes being insignificant for most of the cities. Chart IV, which shows the per capita revenue receipts for all cities and for the ten largest cities, illustrates this fact in a striking way.

In spite of the rather high returns from special assessments in Chicago, Cleveland and Detroit, this group of cities shows an average considerably lower than that for all cities. Subventions are a comparatively insignificant source in these cities, the per cent figure being a little less than half the general average. All the sums received by these cities in the form of subventions were from state governments, and more than 90 per cent were for education.

Revenues received from the granting of rights in and over highways, from the rent of public properties, and from interest on the investment of public funds, are of comparatively greater importance in the larger cities for obvious reasons. More than half of these receipts, or 52 per cent, is from interest derived largely from sinking funds; 23.8 per cent is made up of receipts from highway privileges; and 24.2 per cent from the rent of investment properties. Philadelphia received 15.9 per cent of all its revenue receipts from these sources, 92.4 per cent being derived from rents and interest. On the other hand, 73.5 per cent of Chicago's receipts from these sources arise from the grant of highway privileges, in the main to its street railway system. New York receives as interest on sinking funds nearly three-fourths of its receipts from this class of sources.

This group of cities receives 9.8 per cent of all revenue receipts from the

operation of public service enterprises—slightly less than the average for all cities over 30,000. Of the total receipts for the ten largest cities from this source New York City alone produces 39.7 per cent. Water supply systems account for 77.5 per cent of all such receipts, as against 78.1 per cent for all cities over 30,000. The only other single important source is the earnings of wharves and docks, which account for 11.9 per cent of such receipts.

Chart V is intended to show the per cent distribution of the revenues in these ten largest cities.

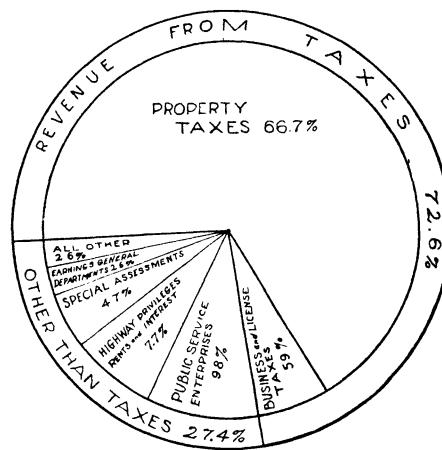


CHART V

Per Cent Distribution of Revenue Receipts of the 10 Cities Having Populations in Excess of 500,000; 1918

By comparing this chart with chart I (*p. 124*) showing the same figures for 227 cities, several differences are noted. In the large cities, the only dependable source of revenue, the tax on real property, is already considerably higher than the average for all cities. Business taxes in the large cities are exactly equal to the average figure. These are, in fact, the only sources of revenue which are theoretically capable of further expansion. Special

property taxes, now only an insignificant source of revenue, promise to be even less important in the future, with the present tendency, as it is, to reserve such sources to the state governments. It is, moreover, very doubtful if the tax on real property can be made much more productive in these cities under present methods of valuation and assessment, and it is clear that the other sources are not dependable.

If the present tendency toward separation of sources persists, there seem to be but three alternatives open to the large cities in their search for new sources of revenue. In the first place, taxes on property might, with a greater measure of justice to all

concerned, be made more productive by a separate assessment of land and improvements, with the heavier burden on the former. The two second-class cities of Pennsylvania, Pittsburgh and Scranton, are now empowered by law to adopt such a system. Second, there seems to be no reason why business taxes could not with justice be more extensively used by these cities. Last of all, it is difficult to avoid the conclusion that if the administration of special property taxes is to devolve on state governments, the development of a system of subventions will eventually offer a measure of relief to the cities which are already the homes of one-seventh of our people.

The Trend of Federal, State, and Local Revenues in the United States

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IT is a matter of far-reaching significance to the student of Public Finance that the functions of all the political units in the United States from the local to the federal have increased both in number and importance since the Civil War. Economic, industrial and social changes have been titanic and widespread. This revolution, if it may properly be called thus, has created new and diverse needs, perplexing and recurrent problems in every community. Public opinion has persistently demanded that governmental activity keep pace with the times and government could not but respond.

One of the most serious problems resulting from the extension of governmental functions into a wider sphere is that of finance, both legislative and administrative. Revenues

must be found in order to meet the rapid growth of expenditures which are the inevitable consequence of new burdens. How rapid the increase in public expenditures has been is largely a matter of conjecture. Financial statistics of cities and states are not completely available before 1915. However, a study of federal expenditures has revealed the fact that there was a per capita increase from \$2.01 in 1860 to \$10.44 in 1915, or about 520 per cent. This must be offset by the increase in population and wealth for the same period.

Thus the problem of raising revenues to meet the ever-increasing demands upon the public treasury has become one of crying need. This problem has created new ones. A readjustment in the various sources was inevitable, for many of the old

sources proved unsatisfactory and inequitable. New sources were used, often unscientifically.

More recently the European War has added new trials to the public financier. Never before had governmental expenditures increased so rapidly. The present system of revenues was put to a severe test, particularly with regard to taxes. And now that the war burden must be borne in addition to the normal increase in ordinary expenditures, there is on every hand urgent demand for a scientific readjustment of our financial system.

In order that the whole problem may be considered scientifically, statistical data and interpretation are necessary. Our revenues must be carefully scrutinized with the purpose of obtaining sufficient analysis as a basis of increased

equality for the taxpayer and increased efficiency for the tax collector. It is hoped that a study of the trend of revenues in the United States may be of aid to the layman as well as to the student. Such a study should answer not only the question as to the chief sources of revenue, but also what changes have taken place over a period of years, and the trend for the future.

Table I gives a summary of the total receipts, exclusive of postal revenues, of the Federal Government, for the years 1913-1919. Receipts include customs, and internal revenues; miscellaneous receipts which include fees, sales of lands, immigrant poll taxes and similar items; Panama Canal tolls, and moneys received from loans.

An analysis of the table reveals three facts. First, customs fell off during this period 43 per cent, due of

TABLE J

TOTAL RECEIPTS OF THE UNITED STATES GOVERNMENT EXCLUDING POSTAL REVENUE¹

1913-1919

<i>Source</i>	1913	1914	1915	1916
1. Customs.....	\$318,891,396	\$292,320,015	\$209,786,672	\$213,185,846
2. Internal Revenue.....	344,416,966	380,041,007	415,669,646	512,702,029
3. Miscellaneous (net).....	60,802,868	62,312,145	72,454,510	53,776,677
Ordinary Receipts.....	\$724,111,230	\$734,673,167	\$697,910,828	\$779,664,552
4. Panama Canal.....	.....	.....	.....	2,869,995
5. Public Debt.....	23,400,850	23,021,922	22,486,955	58,452,403
	\$747,512,080	\$757,694,389	\$720,397,783	\$840,986,950

<i>Source</i>	1917	1918	1919
1. Customs.....	\$225,962,393	\$182,758,989	\$183,428,625
2. Internal Revenue.....	809,366,208	3,696,043,485	3,840,230,995
3. Miscellaneous (net).....	82,845,525	295,208,112	643,944,232
Ordinary Receipts.....	\$1,118,174,126	\$4,174,010,586	\$4,647,603,852
4. Panama Canal.....	6,150,669	6,414,570	6,777,047
5. Public Debt.....	2,428,017,800	16,974,889,210	29,075,976,516
	\$3,552,342,595	\$21,155,314,366	\$33,730,357,415

¹ Statistical Abstract of the United States, 1919, p. 686.

course to the complete annihilation of trade with Europe. Second, the internal revenue increased over 1000 per cent. (A further analysis of internal revenue is presented in table II.) Third, taxes constituted a large per cent of the total receipts of the Federal Government in 1913, approximately 90 per cent. Taxes for the Federal Government include customs and internal revenue. In 1919, only 11 per cent came from this source. This trend is shown in charts I and II.

Another item of importance is that of borrowing. Considerably over 90

of the sources. The internal revenue is subdivided into its component parts in this table.

An analysis of the item, "income and excess profits" shows that it has played an ever increasing part in the federal revenue system. In 1914, the income tax was only one-tenth of the total net revenue. In 1920, the income and excess profits alone amounted to 69 per cent of the total net revenue and 73 per cent of the total internal revenue. The revenue on distilled spirits has dropped rapidly under the agitation for prohibition and the wartime

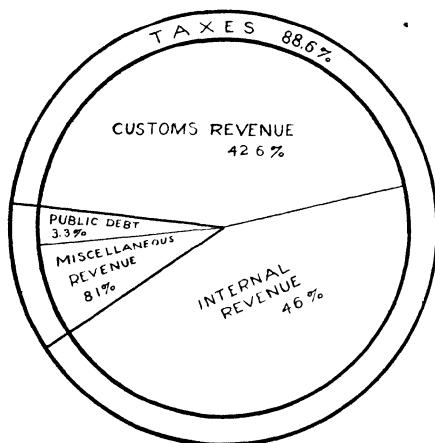


CHART I
Gross Receipts
U. S. Government 1913

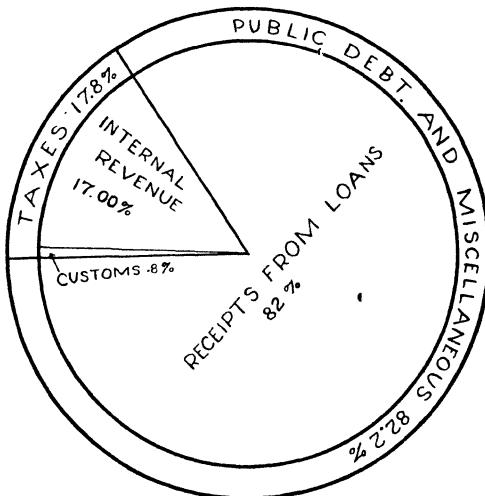


CHART II
Gross Receipts
U. S. Government 1918

per cent of the total receipts came from loans in 1918. Practically all of this, however, was for war purposes. The revenues more than adequately met the ordinary governmental expenditures.

Table II is a summary of the net revenues of the United States Government from 1913-1920. Net revenues here include internal revenue and customs revenue and the tax on national banks, minus the expense of collection and administration of each

liquor control. The smokers of the United States furnished \$295,809,355 in tax to the Federal Government in 1920, or an amount sufficient to run the entire judicial and legislative departments and the executive departments with the exception of expenditures for public works and for wars past, present and future for one year.

The importance of the income tax cannot be over-estimated in the federal revenue system at the present

time. It was the main source of tax revenue during the war period. In fact, it was not until the entry of the United States into the war that this tax came into its own, as the following figures clearly show.

Table III gives the trend in the sources of revenue of all state governments of the United States from 1913–1919. The statistics were not available before 1913. regular reports

were started by the Census Bureau in 1915. Statistics for 1913 are used as a base. They constitute 100 in every instance except those noted in footnotes.

The first item in the table shows the total revenue of the states, amount per capita and the per cent increase over 1913. There was an increase of 83.6 per cent in the total revenues with an increase from \$3.80 to \$6.43 per capita during the five-year period.

TABLE II

NET REVENUES OF THE UNITED STATES GOVERNMENT, FISCAL YEARS 1913–1920

<i>Source of Revenue</i>	1913	1914
Internal Revenue		
1. Income Tax.....	.....	\$60,710,197.52
2. Distilled Spirits, etc.....	\$230,146,332.14	226,179,689.76
3. Tobacco.....	76,789,424.75	79,986,639.68
7. Excise Tax on Corporations.....	35,006,299.84	10,671,077.22
10. Miscellaneous (Butter, Oleomargarine, Etc.)	2,482,397.12	2,461,289.78
<i>Total Internal Revenue</i>	\$344,424,453.85	\$380,008,893.96
Customs Revenue.....	310,257,199.09	283,773,870.45
Tax on National Banks.....	3,730,059.08	3,883,198.14
	<hr/>	<hr/>
	\$658,411,712.02	\$667,665,962.55

	1915	1916	1917
Internal Revenue			
1. Income—Excess Profits..	\$80,201,758.86	\$124,937,252.61	\$387,382,343.96
2. Distilled Spirits—Beverages	223,948,646.09	247,453,543.52	284,008,512.62
3. Tobacco.....	79,957,373.54	88,063,947.51	103,201,592.16
4. Transportation, Communication.....	.....	.....	.....
5. Luxuries (Autos, Candy)	3,635,338.13	4,905,815.19	1,492,865.68
6. Estate Inheritance.....	.....	.....	6,076,434.26
7. Capital Stock.....	3,367,797.87	4,900,907.16	13,303,575.50
8. Stamps on Legal Documents.....	20,494,474.75	38,110,282.49	8,254,341.88
9. Amusements.....	1,559,381.31	2,007,201.05	2,405,298.37
10. Miscellaneous	2,476,253.31	2,344,338.24	3,268,676.01
<i>Total Internal Revenue</i>	\$415,681,023.86	\$512,723,287.77	\$809,393,640.44
Customs Revenue.....	197,663,176.16	194,356,351.59	206,027,585.45
Tax on National Banks.....	3,008,606.90	3,888,034.25	3,611,802.43
	<hr/>	<hr/>	<hr/>
	\$617,252,806.92	\$710,917,673.61	\$1,019,033,028.32

TABLE II—*Continued*

<i>Source of Revenue</i>	1918	1919	1920
Internal Revenue			
1. Income—Excess Profits	\$2,852,324,865.89	\$2,600,783,902.70	\$3,956,936,003.60
2. Distilled Spirits—Beverages	446,054,726.01	490,233,073.72	197,332,105.84
3. Tobacco	156,188,659.90	206,003,091.84	295,809,355.44
4. Transportation, Communication	77,228,575.49	252,348,453.61	307,769,841.36
5. Luxuries (Autos, Candy, etc.)	37,846,983.79	81,357,473.54	270,971,064.27
6. Estate Inheritance	47,452,879.78	82,029,983.13	103,635,563.24
7. Capital Stock	25,329,601.11	29,824,327.95	95,141,732.50
8. Stamps on Legal Documents	21,874,734.47	43,751,340.04	81,259,355.47
9. Amusements	30,974,585.67	58,664,876.88	89,710,525.59
10. Miscellaneous	3,680,208.82	5,153,555.15	9,014,694.50
<i>Total Internal Revenue</i>	<i>\$3,698,955,820.93</i>	<i>\$3,850,150,078.56</i>	<i>\$5,407,580,251.81</i>
Customs	167,073,638.00	171,110,221.07	296,274,230.35
Tax on National Banks	4,691,310.26	3,806,646.42	7,172,598.48
Postal War Revenue	39,073,000.00	71,906,000.00	4,913,000.00
	\$3,909,793,769.19	\$4,096,972,946.05	\$5,715,940,080.64

The subsequent items in table III are the various sources which go to make up the "total" discussed in the preceding paragraph. The increase of 83.6 per cent in the "total" does not therefore mean that there has been 83.6 per cent increase in all the sources. The question naturally arises: What sources have increased and to what extent?

"Taxes" throughout the remainder of this study is to be used in the sense that the Census Bureau has considered the term: "amounts of money, other wealth, or services which, by virtue of that sovereign power of a nation or a state generally spoken of as the taxing power, are exacted for the support of governments, for meeting general public needs, and for other governmental purposes."¹

The general property tax includes "all direct taxes upon real property and upon other property which is

apportioned and levied by substantially the methods employed in apportioning and levying taxes upon privately owned property."² This source showed an increase of 69.8 per cent.

Special property taxes include taxes on corporation stock, corporate indebtedness, savings banks, insurance companies, taxes on mortgages at the time of execution or entry of public record and specific taxes on property. There was an increase of 54 per cent in this item.

The greater increase in the general property tax as compared with the special property taxes may be explained in part by the general increase in real estate values in this country during the war period.

Poll taxes, sometimes called "capitation" or "personal" taxes, declined 28.8 per cent. The poll tax has been discredited as a source of revenue to an increasing degree in the United

¹ *Financial Statistics of States 1917*, p. 20.

² *Ibid.*

TABLE III

TREND IN THE SOURCES OF REVENUE OF ALL STATE GOVERNMENTS OF THE UNITED STATES¹

1913-1919

		<i>Per Capita</i>	<i>Per Cent Increase Over 1913</i>
I. Total Revenue			
1919.....	\$675,217,202	6.43	183.6
1918.....	588,305,651	5.69	160.0
1917.....	522,924,733	5.14	142.2
1916.....	466,946,748	4.67	127.0
1915.....	458,232,597	4.66	124.6
1913.....	367,585,331	3.80	100.0
II. General Property Tax			
1919.....	\$237,234,778	2.26	169.8
1918.....	209,479,197	2.03	149.8
1917.....	182,740,146	1.79	130.7
1916.....	176,102,893	1.76	126.0
1915.....	185,876,319	1.89	133.0
1913.....	139,750,303	1.44	100.0
III. Special Property Tax			
1919.....	\$104,222,552	.99	154.0
1918.....	87,096,809	.84	128.5
1917.....	94,807,880	.94	140.0
1916.....	80,243,246	.80	118.5
1915.....	82,870,882	.84	122.2
1913.....	67,675,933	.70	100.0
IV. Other Special Taxes			
1919.....	\$13,554,063	.12	171.0
1918.....	12,264,613	.12	155.0
1917.....	13,387,239	.12	169.0
1916.....	7,894,014 ²	.07	100.0
V. Poll Taxes			
1919.....	\$2,114,708	.02	71.2
1918.....	2,100,556	.02	70.8
1917.....	2,171,897	.02	73.1
1916.....	2,270,321	.02	76.5
1915.....	3,198,155	.03	107.8
1913.....	2,965,069	.03	100.0
VI. Special Assessments			
1919.....	\$4,408,216	.04	68.2
1918.....	3,097,109	.03	47.1
1917.....	3,289,196	.03	50.9
1916.....	2,868,682	.03	44.4
1915.....	2,268,517	.02	35.1
1913.....	6,454,807	.07	100.0

¹ *Financial Statistics of States 1915-19.* Census Bureau. *Wealth, Debt and Taxation 1913*, Volume II. Census Bureau.² 1916 is used as the base in this item.

TABLE III—Continued

		<i>Capita</i>	<i>Per Cent Increase Over 1913</i>
VII. Business Taxes			
1919.....	\$122,667,336	1.17	228.6
1918.....	112,748,915	1.09	210.1
1917.....	90,927,416	.89	169.5
1916.....	78,092,580	.78	145.5
1915.....	78,730,187	.80	146.7
1913.....	53,642,322	.55	100.0
VIII. Liquor and Other Licenses			
1913.....	\$29,582,065	.30	
IX. Non-Business Licenses			
1919.....	\$48,025,730	.46	744.5
1918.....	36,084,155	.35	559.4
1917.....	25,830,320	.25	400.4
1916.....	19,365,499	.19	300.2
1915.....	14,868,254	.15	230.5
1913.....	6,450,932	.07	100.0
X. Fines, Forfeits and Escheats			
1919.....	\$2,873,400	.03	201.1
1918.....	2,532,849	.02	177.3
1917.....	2,071,825	.02	145.0
1916.....	1,814,243	.02	127.0
1915.....	2,027,664	.02	141.8
1913.....	1,428,011	.01	100.0
XI. Highway Privileges			
1919.....	\$68,452	.0005	500.0
1918.....	10,637	.0002	200.0
1917.....	11,042	.0002	200.0
1916.....	20,922	.00025	250.0
1915.....	1,249 ³	.0001	100.0
XII. Interest—Rents			
1919.....	\$36,444,712	.35	171.0
1918.....	34,353,394	.33	161.2
1917.....	31,618,238	.31	148.4
1916.....	28,381,284	.28	133.2
1915.....	28,069,338	.28	131.7
1913.....	21,300,430	.22	100.0
XIII. Subventions—Grants			
1919.....	\$11,709,458	.10	367.0
1918.....	8,848,569	.09	277.3
1917.....	8,209,840	.08	254.1
1916.....	10,252,542	.10	321.3
1915.....	5,356,799	.05	167.9
1913.....	3,190,750	.03	100.0
XIV. Donations			
1919.....	\$3,434,935	.03	791.0
1918.....	1,991,874	.015	458.7
1917.....	1,401,319	.01	322.8
1916.....	2,211,388	.02	509.4
1915.....	1,173,592	.01	270.2
1913.....	434,526	.004	100.0

³ 1915 is used as the base in this item.

TABLE III—Concluded

		<i>Per Capita</i>	<i>Per Cent Increase Over 1913</i>
XV. Earnings of General Departments			
1919.....	\$83,203,459	.79	252.0
1918.....	72,543,618	.70	219.8
1917.....	62,531,781	.61	189.5
1916.....	53,844,692	.54	163.1
1915.....	50,922,748	.51	152.2
1913.....	32,994,761	.34	100.0
XVI. Earnings of Public Service Enterprises			
1919.....	\$3,306,147	.03	192.7
1918.....	3,267,690	.03	190.4
1917.....	2,633,720	.03	153.5
1916.....	2,437,774	.02	142.0
1915.....	2,716,339	.03	158.3
1913.....	1,715,422	.02	100.0
XVII. Pension Assessments⁴			
1919.....	\$1,949,256	.02	228.7
1918.....	1,885,666	.02	221.2
1917.....	1,292,882	.01	151.6
1916.....	1,146,668	.01	134.5
1915.....	852,554	.007	100.0

⁴ 1915 is used as the base in this item.

States, particularly as a source for state governments. The difficulty and cost of collection made the poll tax unsatisfactory for meeting the demands of the war period. There is a consequent steady decline.

Special assessments include "contributions levied against land and collected from its owners and occupants to defray the costs of specified public improvements."³ From the definition it will be readily seen that the special assessment is a specific tax for a definite improvement. There was a widespread postponement of public improvements during the war period when all energies were devoted to one single purpose and economies were being exacted. As a consequence there was a decline of 31.8 per cent in this source.

Business taxes include all taxes on business activities, such as income

from individuals, liquor license, business license, etc. This source showed an increase of 128 per cent over this period.

Non-business licenses include taxes primarily for regulation; such as dog license, motor vehicles, etc. The great increase of 644.5 per cent was due entirely to motor licenses of various kinds.

The significant fact of the above analysis is that the greatest increases during the war period are shown in taxes other than property. Taxes on luxuries and new taxes on business increased at a rapid rate and are reflected in the state revenues.

Interest-rents is of little importance for this study as this item includes interest on state funds held in banks of various kinds, rents from public lands, etc.

Subventions and grants include amounts received primarily from the national government for a specified purpose.

Earnings of general departments and

³ *Financial Statistics of States 1917, p. 21.*

public service enterprises include fees for service and products of state institutions.

An attempt has been made in table IV to study the trend of the sources of revenue of cities having a population of 30,000 and over, in much the same manner as was done in the previous

table. The report for 1919 was not available.

The first item includes the total revenue for all the cities with the amounts received per capita and the per cent increase over 1913. There was an increase of 34 per cent in the total revenues as compared with 69

TABLE IV

TREND IN THE SOURCES OF REVENUE OF CITY GOVERNMENTS OF THE UNITED STATES
HAVING POPULATION 30,000 AND OVER

1913-1918¹

		<i>Total Number</i>		
		<i>Cities with Population 30,000 and Over</i>	<i>Per Capita</i>	<i>Per Cent Increase 'Over 1913</i>
I. Total Revenue				
1918.....	\$1,124,094,899	227	32.75	134.03
1917.....	1,065,537,142	219	32.04	127.5
1916.....	994,710,241	213	30.83	118.6
1915.....	940,385,311	204	30.17	112.1
1913.....	838,642,976		27.78	100.0
II. General Property Tax				
1918.....	\$705,723,158		20.55	140.06
1917.....	666,402,637		20.03	132.2
1916.....	623,300,805		19.31	123.7
1915.....	570,830,861		18.30	113.3
1913.....	503,804,681		16.69	100.0
III. Special Property Tax				
1918.....	\$16,269,058		.47	131.04
1917.....	14,739,512		.44	118.7
1916.....	13,618,524		.42	109.6
1915.....	12,598,628		.40	101.5
1913.....	12,415,667		.41	100.0
IV. Poll Tax				
1918.....	\$2,014,952		.06	122.7
1917.....	1,998,033		.06	121.7
1916.....	1,906,483		.06	116.1
1915.....	1,792,358		.06	109.2
1913.....	1,641,447		.05	100.0
V. Special Assessments				
1918.....	\$72,673,785		2.12	100.5
1917.....	83,195,596		2.50	115.1
1916.....	74,009,766		2.29	102.3
1915.....	79,890,321		2.56	110.5
1913.....	72,279,269		2.39	100.0

¹ *Financial Statistics of Cities 1915-18. Wealth, Debt and Taxation 1918.*

TABLE IV—*Continued*

		<i>Capita</i>	<i>Per Cent Increase Over 1913</i>
VI. Liquor License			
1918.....	\$35,576,383	1.08	87.4
1917.....	36,974,797	1.11	90.9
1916.....	38,024,542	1.18	90.9
1915.....	39,606,956	1.27	94.8
1913.....	40,664,534	1.35	100.0
VII. Other Business License			
1918.....	\$24,069,376	.70	214.8
1917.....	16,479,731	.49	147.09
1916.....	13,554,925	.42	120.9
1915.....	12,741,765	.41	113.7
1913.....	11,203,623	.37	100.0
VIII. Non-Business License			
1918.....	\$6,924,560	.20	172.6
1917.....	5,726,168	.17	142.7
1916.....	4,701,616	.15	117.2
1915.....	4,402,375	.14	109.7
1913.....	4,011,400	.13	100.0
IX. Fines, Forfeits and Escheats			
1918.....	\$5,753,081	.17	137.8
1917.....	4,938,727	.15	118.1
1916.....	4,124,489	.13	98.7
1915.....	4,449,361	.14	106.2
1913.....	4,178,925	.14	100.0
X. Highway Privileges			
1918.....	\$15,796,393	.46	125.9
1917.....	14,037,647	.42	111.9
1916.....	13,898,573	.43	110.8
1915.....	15,069,314	.48	120.1
1913.....	12,541,720	.42	100.0
XI. Interest—Rents			
1918.....	\$46,785,850	1.40	142.6
1917.....	44,465,361	1.33	135.5
1916.....	41,576,411	1.28	126.7
1915.....	40,002,893	1.28	121.9
1913.....	32,798,418	1.09	100.0
XII. Subventions—Grants			
1918.....	\$41,277,908	1.20	122.9
1917.....	39,806,668	1.19	118.5
1916.....	37,666,043	1.16	112.2
1915.....	36,141,199	1.15	107.6
1913.....	33,566,942	1.11	100.0

TABLE IV—*Concluded*

		<i>Per Capita</i>	<i>Per Cent Increase Over 1913</i>
XIII. Donations—Gifts			
1918.....	\$2,223,004	.06	52.6
1917.....	1,395,034	.04	33.0
1916.....	1,736,249	.05	41.0
1915.....	1,646,450	.05	38.9
1913.....	4,225,096	.14	100.0
XIV. Earnings of General Departments			
1918.....	\$29,526,180	.86	159.7
1917.....	26,580,328	.80	143.7
1916.....	24,485,840	.76	132.4
1915.....	22,547,201	.72	121.4
1913.....	18,485,785	.61	100.0
XV. Earnings of Public Service Enterprises			
1918.....	\$116,494,645	3.39	131.9
1917.....	106,158,783	3.19	122.3
1916.....	99,797,175	3.09	103.4
1915.....	96,558,379	3.10	111.2
1913.....	86,799,169	2.88	100.0
XVI. Pension Assessments			
1918.....	\$2,986,566		
1917.....	2,638,120		
1916.....	2,308,800		
1915.....	2,107,270		

per cent in the states. In general the revenues for cities, while constituting an aggregate larger than for the states, are more constant.

The general property tax increased 40 per cent during the period as compared with 69.8 per cent for the states.

The special property tax increased 31 per cent as compared with 54 per cent for the states. Here again special property taxes did not increase as rapidly as the tax on real estate, primarily on account of the increase in real estate values.

The trend in special assessments was more or less erratic. That there was an increase in this source is significant, though the increase was not constant. Certain improvements must be made by municipalities at all times. The problems of city administrations are such that it is absolutely necessary to make additional improvement. The war in Europe had slight effect upon such improvements. The

trend took a decided drop in 1918, upon the entry of the United States into the war.

In cities as well as states, there was a more rapid increase in taxes other than on property. The explanation is the same as in the case with state revenues.

In general, the state revenues increased more rapidly than city revenues. This can be explained on the basis of differentiation in functions between the state and cities. The former are more numerous. Furthermore the analysis shows that the city was far more removed from the war than the state as far as finances are concerned.

In tables III and IV an analysis was made of the trend in the amounts received from the various sources of revenue of cities and states. In table V the various sources are arranged as to the per cent they furnish of the total revenues. The pur-

pose of the table is to discover whether there has been any change in the distribution of sources over the five-year period.

The table is divided into two parts.

The first half tabulates state governments. An analysis reveals several interesting facts. In 1913 the general property tax constituted 38 per cent of the total revenues of the states and in

TABLE V

TREND IN THE DISTRIBUTION OF THE SOURCES OF REVENUE FOR ALL STATE GOVERNMENTS AND FOR CITIES WITH A POPULATION OF 30,000 AND OVER

1913-1919

A—All State Governments

<i>Year</i>	<i>General Property Tax</i>	<i>Per Cent of Total</i>	<i>Special Property Tax</i>	<i>Per Cent Total</i>
1919.....	\$237,234,778	35.1	\$104,222,552	15.4
1918.....	209,479,197	35.6	87,096,809	15.2
1917.....	182,740,146	34.9	94,807,880	18.6
1916.....	176,102,893	37.7	80,243,246	18.1
1915.....	185,876,319	40.5	82,870,882	15.2
1913.....	139,750,303	38.0	67,675,933	18.4
<i>Other Special Taxes</i>				
1919.....	\$13,554,063	2.0	\$2,114,708	.3
1918.....	12,264,613	2.1	2,100,556	.4
1917.....	13,387,239	2.6	2,171,897	.4
1916.....	7,894,014	1.7	2,270,321	.5
1915.....	.....	....	3,198,155	.7
1913.....	.....	....	2,965,069	.8
<i>Business—Non-Business Licenses</i>				
<i>Special Assessments</i>				
1919.....	\$170,693,066	25.5	\$4,408,216	.7
1918.....	148,833,070	25.5	3,097,109	.5
1917.....	186,757,736	22.5	3,289,196	.6
1916.....	97,458,079	21.1	2,868,682	.6
1915.....	93,598,441	20.6	2,268,517	.5
1913.....	89,675,319	24.5	6,454,807	1.8
<i>Earnings of General Departments</i>				
<i>Earnings of Public Service Enterprises</i>				
1919.....	\$83,203,459	12.3	\$3,306,147	.5
1918.....	72,543,618	12.4	3,267,690	.6
1917.....	62,531,781	12.0	2,633,720	.5
1916.....	53,844,692	11.5	2,437,774	.5
1915.....	50,222,748	11.1	2,716,339	.6
1913.....	32,994,761	8.9	1,715,422	.5
<i>All Other</i>				
1919.....	.....	.....	\$56,470,213	7.8
1918.....	.....	.....	49,622,989	7.8
1917.....	.....	.....	44,605,146	7.8
1916.....	.....	.....	43,827,027	8.6
1915.....	.....	.....	37,481,196	7.3
1913.....	.....	.....	26,353,717	7.2

TABLE V—*Continued*

SUMMARY SHOWING THE TREND IN PER CENT OF TOTAL REVENUE RECEIVED FROM TAXES IN STATE GOVERNMENTS

1913-1919

Year	Total Received from All Taxes	Per Cent Total	All Other	Per Cent Total
1919.....	\$527,819,167	78.3	\$147,598,035	21.7
1918.....	459,774,245	78.8	128,531,406	21.2
1917.....	409,864,898	79.0	113,059,835	21.0
1915.....	365,543,797	78.7	92,688,800	21.3
1913.....	300,066,624	82.2	67,518,707	17.8

B—CITIES WITH POPULATION 30,000 AND OVER

	General Property Tax	Per Cent of Total	Special Property	Per Cent Total
1918.....	\$705,723,158	62.7	\$16,269,058	1.5
1917.....	666,402,637	62.5	14,739,512	1.4
1916.....	623,300,805	62.6	13,618,524 ¹	1.4
1915.....	570,830,861	60.7	12,598,628	1.3
1913.....	503,804,681	60.0	12,415,667	1.6
	Poll Tax		Liquor License	
1918.....	\$2,014,952	.2	\$35,576,383	3.0
1917.....	1,998,033	.2	36,974,797	3.4
1916.....	1,906,483	.2	38,024,542	3.8
1915.....	1,792,358	.2	39,606,956	4.2
1913.....	1,641,447	.2	40,664,534	4.8
	Other Business License		Non-Business License	
1918.....	\$24,069,376	2.0	\$6,924,560	.8
1917.....	16,479,731	1.5	5,726,168	.7
1916.....	18,554,925	1.3	4,701,616	.6
1915.....	12,741,765	1.3	4,402,375	.5
1913.....	11,203,623	1.3	4,011,400	.6
	Special Assessments		Earnings of General Departments	
1918.....	\$72,673,785	6.5	\$29,526,180	2.6
1917.....	83,195,596	7.8	26,580,328	2.5
1916.....	74,009,766	7.4	24,485,840	2.5
1915.....	79,890,321	8.5	22,547,201	2.4
1913.....	72,279,269	8.6	18,485,785	2.2
	Earnings of Public Service Enterprises		All Other	
1918.....	\$116,494,645	10.4	\$114,822,802	10.2
1917.....	106,158,783	10.0	106,981,557	10.1
1916.....	99,797,175	10.0	101,210,565	10.2
1915.....	96,558,379	10.3	99,416,487	10.5
1913.....	86,799,169	10.3	87,310,401	10.4

TABLE V—*Concluded*

SUMMARY SHOWING THE TREND IN PER CENT OF TOTAL REVENUE RECEIVED FROM TAXES IN CITIES WITH POPULATION 30,000 AND OVER

1913-1918

<i>Year</i>	<i>Total Received from All Taxes</i>	<i>Per Cent Total</i>	<i>All Other</i>	<i>Per Cent Total</i>
1918.....	\$790,577,487	70.2	\$333,517,412	29.8
1917.....	742,320,878	69.7	323,216,264	30.3
1915.....	641,972,943	68.2	298,412,368	31.8
1913.....	573,741,751	68.5	264,874,624	31.5

1919 but 35 per cent. Special property taxes furnished 18.4 per cent in 1913 and but 15.4 per cent in 1919. The non-business license dropped 1 per cent. Though the property taxes still contribute largely to the total revenues, there is here shown an indication that their importance is growing less. Only future tables can show whether this trend is temporary or permanent.

The summary of table V contains a consolidation of taxes in an attempt

to indicate the trend of all taxes in relation to other sources. In 1913 all taxes constituted 82.2 per cent of the total, whereas in 1919 they furnished only 78.3 per cent of the total. There has been a tendency to lay less stress on taxes, though they still contribute 78.3 per cent to the total.

The second half of table V contains a similar study for cities. Cities have given increased attention to the general property tax, the amount from this source being 60 per cent in 1913 and

TABLE VI

THE TREND IN THE DISTRIBUTION OF TAXES IN THE UNITED STATES
1913-1919

A—Taxes in All State Governments

	<i>General Property Tax</i>	<i>Per Cent Total Taxes</i>	<i>Special Property</i>	<i>Per Cent Total Taxes</i>
1919.....	\$237,234,778	45.0	\$104,222,552	19.8
1918.....	209,479,197	45.5	87,096,809	19.0
1917.....	182,740,146	44.5	94,807,880	23.1
1915.....	185,876,819	50.8	82,870,882	22.6
1913.....	139,750,303	46.5	67,675,933	22.5
<i>Other Special Taxes</i>				
1919.....	\$13,554,063	2.5	\$2,114,708	0.4
1918.....	12,264,613	2.7	2,100,556	0.4
1917.....	13,387,239	3.3	2,171,897	0.5
1915.....	.....	....	3,198,155	0.7
1913.....	.....	....	2,965,069	0.9
<i>Business Taxes</i>				
1919.....	\$122,667,336	23.2	\$48,025,730	9.1
1918.....	112,748,915	24.5	36,084,155	7.9
1917.....	90,927,416	22.1	25,830,320	6.5
1915.....	78,730,187	21.7	14,868,254	4.2
1913.....	53,642,322	17.8	6,450,932	2.4
<i>Non-Business License</i>				

TABLE VI—*Concluded*

B—Taxes in Cities, 30,000 and Over

	<i>General Property Tax</i>	<i>Per Cent Total Taxes</i>	<i>Special Property</i>	<i>Per Cent Total Taxes</i>
1918.....	\$705,723,158	89.2	\$16,269,058	2.0
1917.....	666,402,637	89.8	14,739,512	1.9
1916.....	623,300,805	89.6	13,618,524	1.9
1915.....	570,830,861	88.9	12,598,628	1.9
1913.....	503,804,681	87.8	12,415,667	2.1
	<i>Poll Taxes</i>		<i>Business Taxes</i>	
1918.....	\$2,014,952	.2	\$24,069,376	3.3
1917.....	1,998,033	.2	16,479,731	2.5
1916.....	1,906,483	.2	13,554,925	1.9
1915.....	1,792,358	.2	12,741,765	1.9
1913.....	1,641,447	.2	11,203,623	1.9
	<i>Liquor License</i>		<i>Non-Business License</i>	
1918.....	\$35,576,383	4.5	\$6,924,560	.8
1917.....	36,974,797	4.9	5,726,168	.7
1916.....	38,024,542	5.4	4,701,616	.6
1915.....	39,606,956	6.1	4,402,375	.6
1913.....	40,664,534	7.0	4,011,400	.6

62.7 per cent in 1918. This should be compared with the states. In recent years there has been a marked tendency for states to leave the general property tax to local governments for sources of revenue. This undoubtedly accounts for some of the 2.7 per cent increase in this source in cities.

The summary shows that 68.5 per cent of all revenues from cities came from taxes in 1913 and increased to 70.2 per cent in 1918.

Table VI indicates the trend in the distribution of taxes in the United States. The total amounts received from taxes as given in the summary of table V has been split up into the various sources in order to find out what the trend has been in per cent received from the various sources in relation to the total amount of taxes.

The first half is an analysis of revenues of state governments.

Of the total amount of taxes received by the states in 1913, 46.5 per cent was received from the general property tax and 45 per cent in 1919.

In 1913, 22.5 per cent was received from special property taxes whereas only 19.8 per cent was received from the same source in 1919. On the contrary, business taxes increased from 17.8 per cent of the total in 1913 to 23.2 per cent of the total in 1919. Non-business license revenues increased from 2.4 per cent of the total to 9.1 per cent. The tendency has distinctly been away from property taxes to business and other taxes in the states.

The second half is a tabulation of the revenues of cities of 30,000 and over.

The general property tax constituted 87.8 per cent of the entire amount received from taxes in cities in 1913 and increased to 89.2 per cent in 1918. Business taxes also increased from 1.9 per cent in 1913 to 3.3 per cent in 1918. It was the same rate in both instances.

In table VII a study has been made of the per capita revenues of the United States Government, state gov-

TABLE VII
TREND OF THE TOTAL PER CAPITA REVENUES
1913-1919

A—United States Government

<i>Year</i>	<i>Total</i>	<i>Taxes</i>	<i>All Other</i>
1919.....	324.71	44.25	280.46
1918.....	205.38	40.52	164.86
1917.....	36.16	11.06	25.10
1916.....	8.40	7.79	.61
1915.....	7.34	7.11	.23
1913.....	7.77	7.54	.23

B—All State Governments

1919.....	6.43	5.03	1.40
1918.....	5.69	4.45	1.24
1917.....	5.14	4.02	1.12
1916.....	4.67	3.61	1.06
1915.....	4.66	3.73	.93
1913.....	3.80	3.16	.74

C—Cities, 30,000 and over

1918.....	32.75	23.01	9.74
1917.....	32.04	22.30	9.74
1916.....	30.83	21.54	9.29
1915.....	30.17	20.58	9.59
1913.....	27.78	19.00	8.78

ernments and cities, with the amounts given for taxes. The comparison of the amounts received from taxes for each political unit is interesting. In 1913, the per capita revenues of cities, Federal Government and states was \$19, \$7.54 and \$3.16, respectively, while in 1919 the per capita revenues of Federal Government cities and states was \$44.25, \$23.01 and \$5.03, respectively.

The significant increase in the total per capita was that of the Federal Government from \$7.77 in 1913 to \$324.71 in 1919.

This relationship of per capita revenues with special reference to a comparison of state and city governments has been shown graphically in chart III.

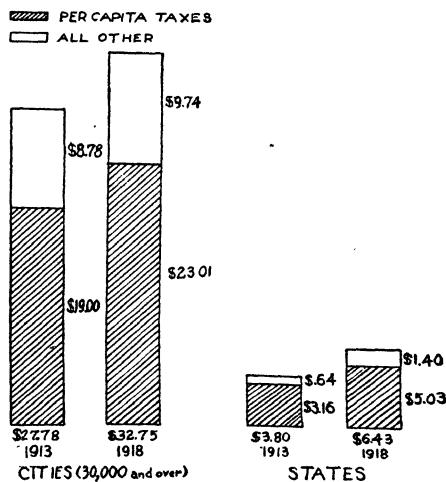


CHART III
Showing the Trend of City and State Per Capita Revenues 1913-1918

Peru's Burden of Military Expenditures

By J. C. LUITWEILER

New York City

IT would, perhaps, be difficult to find a country in South America or elsewhere which, over a period of an entire century, has suffered more deeply from wars and revolutions and the accompanying burden of armaments and war indebtedness than has Peru. This is the year in which Peru celebrates the 100th anniversary of her independence from Spain, and the history of the century that is closing is a long and mournful record of one of the richest countries of South America, dwarfed in its economic, educational and political development by military activities and expenditures.

In this century Peru was engaged in seven different foreign wars and a dozen or more serious internal revolutions or insurrections. She had two score of rulers, most of whom came into office by violence and were deposed in the same way, and not one of whom was a civilian until Manuel Pardo came into office in 1872. Prior to the War of the Pacific (1879-83), her economic progress was negligible except for some railroad construction which had been carried on during the very brief breathing spells between civil and foreign wars.

It was not that the government of Peru nor its people were suffering during this period from poverty, for the country was blessed with rich deposits of guano, a natural fertilizer which at little cost could be gathered from the islands along the coast, and exported and sold in all the markets of the world. During a period of forty years, from 1840 to 1879, Peru had the unusual distinction of running its government practically without recourse to taxation of any kind, for in this time

she exported 12,000,000 tons of guano, and the national treasury received net profits therefrom of about \$400,000,-000. This money was largely squandered on current expenditures with nothing to show for it, according to a statement of President Billinghurst in 1913, except twenty warships costing \$5,000,000; a penitentiary costing \$850,000; an exhibition garden and palace, \$3,000,000; and a bridge, \$300,000, making a total of \$9,150,000. She had likewise spent the proceeds of over \$150,000,000 in loans secured chiefly by liens on future profits from sales of guano. By 1873 her finances had reached a state of hopeless bankruptcy, for her budget of expenditures was over two and one-half times her current income.

While in this condition, the disastrous War of the Pacific broke upon her, she and Bolivia joining forces against Chile over a dispute concerning the nitrate beds, then under the sovereignty of Peru. The economic value of these nitrate deposits was just becoming recognized and they promised to be a source of wealth rivaling even guano. The war lasted from 1879 to 1883. Peru was completely vanquished by Chile and her nitrate provinces were taken from her. She found herself in a state of utter bankruptcy, carrying the enormous foreign debt of \$268,000,000 owed to British, French and Dutch bondholders, upon which there had been prolonged default.

Peru was mercifully relieved of this burden by an arrangement with her creditors through the Council of Foreign Bondholders, which eventuated in the organization of the Peruvian

Corporation. The entire foreign debt was cancelled in consideration of the granting to this corporation by the Government of Peru of certain privileges and concessions, among which the most important were:

- (1) The cession of all the Peruvian state railroads for a period of sixty-six years. These railroads comprise over 1,800 miles of line, including practically all the important railroads of Peru except the Cerro de Pasco Railroad.
- (2) The right to extract 3,000,000 tons of guano, subsequently reduced to 2,000,000 tons.

(3) The right of free navigation of Lake Titicaca and the cession of the government's steamers operating thereon. Modifications of this agreement in 1907 extended the lease of the railroads seventeen years and provided for an annuity payment by the government to the corporation of \$80,000 for a period of thirty years. It is obvious that to free herself of debt, Peru gave up everything she then possessed of immediate economic value.

But if Peru fared badly, the bondholders fared no better. In return for approximately \$180,000,000 par of Peru's bonds, together with arrearages of interest, they received \$37,000,000 of preferred stock and \$45,000,000 of common stock in the new Peruvian Corporation. At the end of twenty years, this stock was worth only \$16,000,000, at market values, or about 9 per cent of the par of the bonds originally surrendered.

Such is the fate of a country and bondholders embarking upon an extended program of financing military expenditures. Neither side has been satisfied with the arrangement that the Peruvian Corporation embodies and it has been the subject of endless differences and even international involvements between Peru and the

governments of Great Britain, France and Holland.

In the thirty years since the War of the Pacific, internal political conditions have been much more stable and the country has had no conflicts with other nations. In consequence and despite the heritage of the past, which had very much impaired her credit and discouraged foreign investment, Peru's economic development has been rapid. True, she has accumulated some \$30,000,000 of new indebtedness, some of which may be ascribed directly, and some indirectly, to naval and military expenditures. Her national revenues have increased considerably. In 1919 she collected over \$29,000,000 from taxes, about \$6,000,000 of which, however, were from war taxes that will probably not continue. A debt service of \$3,300,000 requires only 15½ per cent of her normal revenues; and were it not for the fact that so considerable a portion of her assets is mortgaged to the Peruvian Corporation, and the major portion of her current revenues are pledged, even though they are not all used, to other creditors who have provided the new loans of recent years, the national debt and debt service in relation to her population and national income would be quite small.

ARMAMENTS

The government in the last ten years has been spending about 18 per cent of her entire revenue for naval and military establishments. When we consider that her present debt was created in part for direct military or naval expenditure, and in part as the result of unbalanced budgets and floating debts for which the current military and naval expenditures are as much responsible as any other item of the budget, it is reasonable to say that one-half of her debt service is assign-

able to her armaments account. We have, therefore, a condition in which the country is spending, directly and indirectly, a quarter of its yearly revenues for military and naval purposes. In contrast, only about 6 per cent is spent on education.

But the most confirmed pacifist could hardly describe Peru as "armed to the teeth." With a population of 4,500,000 and an area of almost 700,000 square miles to protect, her standing army on a peace footing is only 4,000 officers and men. Her navy consists of 14 vessels, only a few of which are fighting units, and she has a very long coast line to defend. It is hard, indeed, to see how the government, with the responsibility of protecting the people against foreign aggression and preserving the national honor, could have been expected to do much less in these late years.

THE TACNA-ARICA QUESTION

It must be remembered that Peru has ever present the Tacna-Arica question, which it is felt may any day burst forth from smouldering ashes into the flame of international war. Tacna and Arica are two of the provinces which were taken from Peru by Chile as a result of the War of the Pacific, but under the express condition that their ultimate sovereignty should be decided by a plebescite. The time for holding this plebescite has long since passed, but no agreement can be reached by Peru and Chile for holding it. Irrespective of the merits of the controversy and of the importance or lack of importance of the disputed territory, there is this open sore that provides a good excuse for both nations to arm against each other. Only lately Chile has acquired some new units for her navy from Great Britain. Could it be wondered at if Peru replies

with further additions to her navy, even at great financial sacrifice?

And so it will go on and both countries will spend in the next decade a hundred times more than the disputed provinces could ever be worth to them. But until we have some better way of settling issues between nations, such as this Tacna-Arica question, than by resort to arms, there can be no relief from the intolerable burden of armaments.

Can either country today be satisfied that aggression upon the part of the other will be promptly met by the united opposition of the rest of the world, and hence disarm? And is it not possible that in certain cases the maintenance of the *status quo* simply as a result of the disparity in armaments may work a positive injustice to the weaker nation? The writer would not be so bold as to say, without having studied this controversy, that this is the case in the Tacna-Arica question. But the spectacle of Chile and Peru carrying heavy armaments largely because of a forty-year old controversy over a small piece of territory of little or no economic value to either of them, is a striking illustration of the need of some international agency of some sort to which questions of like nature may, and must be, referred. Decided with justice to both parties, and its decisions backed by the weight of public opinion of the entire world, the strongest of the nations would not dare violate its decisions with impunity.

Perhaps when this is attained, a billion dollars or so passing through a small nation's treasury, as in the case of Peru in the last century, will serve to add more to the country's material and moral progress than a few thousand miles of railroad line leased for a long term to foreign creditors, twenty warships now at the bottom of the sea, a penitentiary, a palace and a bridge.

Public Expenditures and Receipts in France

By CHARLES GIDE

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BEFORE the war the budget of expenditures had gradually and rapidly increased from one billion francs in 1834 to a little more than five billions on the eve of the war.¹ This figure of five billions had already disturbed public opinion, for it represented more than 130 francs per capita in population, and the financiers and economists said that the limit of the taxpayers' capacity had been reached, a remark which today makes one smile. The budget of 1920 is exactly ten times as much, or fifty billion francs. It is true that this has been brought down to a somewhat lower figure, but only by rather unsound economics.

This enormous total can be divided into four parts:

- (a) Interest of the public debt; about
- (b) Military expenditures
- (c) Civil service
- (d) Reconstruction of the devastated regions and war pensions

12 billions
6 "
7 "
20 "
—
45 "

INTERESTS OF THE PUBLIC DEBT

Before the war, the consolidated public debt (that is, in perpetual annuities or redeemable at long term) amounted to 25 billion francs capital (in round numbers), the interest and redemption of which (the latter very trifling) was 760 million francs. This debt in almost its entirety was the result of past wars and particularly of that of 1870-71.

But at the same time as the consoli-

¹ Here are the progressions at the rate of a million:

1834	1,007	million francs
1866	2,018	" "
1888	3,107	" "
1909	4,141	" "
1914	5,091	" "

dated debt, there was a short-term debt (Treasury Bonds) and various other obligations of the state (particularly for the guarantee of railroad deficits), so that the service of interest of the public debt amounted to one billion francs in round numbers, without counting what is called the life debt, that is, 340 million francs annually for civil and military pensions. Therefore, it was about one-fourth of the budget of expenditures. This debt was at this date already considered as excessive and as handicapping France in international competition. Indeed, it exceeded the debts of all the other countries in the world, without exception.

And so it is that with financial con-

ditions already very burdensome, France found herself surprised by the Great War, which inflicted on her about 120 billion francs of military war expenses, properly called, and an equal amount of indirect expenses, payments to families, subsidies, pensions and interest (account established December 31, 1920). It goes without saying that France has not been able to make provision for these enormous expenditures with her taxes. She received in taxes in the course of eight years (August, 1914-December, 1920) about 46 billion francs; all the rest, that is, more than 200 billion francs, was obtained by various kinds of loans. Following are the various categories of the war loans:

(a) Loans in consolidated annuities (six loans)	86 billion francs
(b) Loans in short-term obligations (National Defense Bonds)	52 " "
(c) Loan from the Bank of France	26 " "
(d) Loans from foreign countries	34 " "
	—
	198 " "

The 25 billion francs of consolidated debt previous to the war are therefore increased by (or will be in proportion to the loans for consolidation) 200 billions and are thus brought to 225 billions and even to a considerably higher figure because all the loans effective to date were issued below par (except the last of November, 1920, which was issued at six per cent at par). And so it is that the figure of 86 billions of consolidated loans given above represents in fact what the State has received but not what it is pledged to pay when the time comes. The nominal amount of these six loans reaches 111 billions. The consolidated debt of France therefore (that before the war and that after the war), amounts at present to 136 billion francs and the total public debt to more than 300 billions, if one takes in account all her other obligations.² This debt is unfortunately destined to increase for many years, as we shall see at the end of this article.

The interest of this enormous debt, figured at six per cent and without redemption, will amount to about 18 billions, in fact, but, in the figure in the budget of 1920, does not go beyond 12 billions because the interest of the last

² It is also necessary to remark that in the above outline the debt to foreign countries is estimated at par; if it were estimated at the present rate of exchange (February, 1921), it would be necessary to estimate it at about 90 billions.

This is how it is divided:

Debt to the United States	3,500 million dollars
" " England	570 million pounds
" " Spain	600 million pesetas
" " other countries	1,000 million francs

These debts are the state debts only and do not include the loans made in the United States for French merchants, probably 5 billion dollars.

loan and foreign loans is not included in it and the debt to the Bank of France is only encumbered with a negligible interest, and the interest of loans previous to the war was only three per cent.

MILITARY EXPENSES

In the budget of 1913, which was the last administered before the war, the military expenses were figured as follows:

Army	983 millions
Navy	488 "
	—
	1,471 "

The budget of 1914, which was voted on seven months late, in July, 1914, on the eve of the declaration of war, and which therefore remained on paper, involved an enormous increase.

Army	2,052 millions ³
Navy	513 "
	—
	2,565 "

The budget of 1921 is figured as follows (figures that are very uncertain, however):

Army	5,288 million francs
Navy	852 " "
	—
	6,140 " "

Such a figure is indeed made in order to confound those who expected a reduction, from the war, of war expenses. Without wishing to try to justify it, even by the example of the other great powers who did very much the same thing, the explanation is this.

³ This figure of 2,052 millions included, of course, 848 million extra expenses caused by the establishment of the three years military service, expenses which would not be renewed in the future, it was said.

The expenses of the army (1921 budget) include:

900 million francs for Syria ⁴
600 " " " Morocco
700 " " " the occupation

of the German provinces of the Rhine, these expenses having to be paid by Germany.

These three together represent more than 2 billions, which deducted from the total war expenditures of 5,288 millions, leave for the expenditures of the home army about 3 billions. Now if this figure is compared with that before the war (about two billions), it will be seen that the increase is far less than the rise in prices. If the index number for France indicates a rise of 350 per cent, the conclusion will be that a rise of 50 per cent for the war expenditures is really modest.

It must be remembered that the pay of soldiers and officers was practically tripled (a sergeant receives today 8,000 francs instead of 2,100 before the war, a captain 16,000 instead of 6,000), and even these amounts are considerably lower than those of foreign armies.

Along with the military expenses, it would be proper to record the pensions due wounded soldiers and the families of the dead, which amount at present to 3,500 millions and possibly to 4,500 millions on the day when they are definitely settled. But as they have been charged to Germany, by the Treaty of Versailles, we shall find them later on page 154.

As to the budget of the navy, which from 500 millions in 1914 has only risen to 852 millions, such a small increase can only be explained by a complete halt in naval construction in France, which is indeed the case.⁵

⁴ In the proposed budget of 1921, the amount asked for Syria and the Orient is raised to 888 millions; for Morocco to 591 millions, doubtless parliament will make a considerable reduction.

⁵ It is interesting to compare with this modest figure that of the naval expenses of the United States 1920-1921.

CIVIL SERVICE

We include under this head everything that comes in the province of the state, except the two preceding headings (public debt and military expenditures). Before the war this service amounted in the budget to about 2,300 millions and therefore represented less than half of the whole budget (45 per cent). In the budget of 1920, these expenses increased to about eight billions, an increase of 250 per cent, a little less than three times as much. It does not exceed and even is far from reaching the increase in the cost of living, although the number of officials has increased very much, as it has in all the belligerent countries.

Of all services, that which has increased the most (and this is a happy consolation among so many others that are disheartening), is that of public instruction. This is not saying that it figures for a very large share in the budget, not even one-tenth of the service of the public debt; but if the figure is humiliating compared to other expenses, it appears, on the other hand, very creditable when compared with what it was formerly. Following are some dates which mark the stages of the budget of public instruction:

1870	26 millions
1880	80 "
1900	204 "
1914	700 "
1920	1,163 "

The largest part of this budget is absorbed by primary instruction (780 million francs). Higher education is still very poorly endowed (65 millions).

A public service which would fill great needs, especially at this time, and which the state can not fulfil for lack of resources, is the public works, the tools of the nation. Already quite insufficient and backward

before the war, today it has to be constructed all over again—railroads, highways, canals, ports, hydro-electric installations, public hygiene, and especially the building of new houses to mitigate the frightful crisis in lodging accommodations. The state is obliged to rely on individual initiative to take care of these urgent necessities. The railroads, the mail and telegraph systems, in spite of the almost double charges, claim enormous deficits; the railroads, two billion francs; the postal and telegraph systems, 500 millions.

RECONSTRUCTION OF THE DEVASTATED REGIONS

Whatever may be the sympathies which the devastation of the richest region of France awakened in foreign countries and particularly in the United States, one is not sufficiently aware of the task that falls on France if she is not paid by Germany and aided by her Allies. The amount of damages which at first had only been estimated at 25 billion francs has increased by successive estimates to 130 billions.⁶ Such an increase in the estimates evidently runs the risk of causing them to be suspected, and we have from the beginning expressed regret that these estimates were not entrusted to neutral experts and even debated with the Germans. However, it is necessary to note that this increase in the estimates made since the armistice does not exceed the rise in prices; it is incontestable that the cost of construction has increased four-fold and even five-fold, and so it is not surprising that if the costs of reconstruction were estimated at 25

⁶ Including only the damages in the devastated parts of France. Adding to this the damages on the sea and in foreign lands the total exceeds 140 billion francs. In addition to this the capitalization of the war payments to families reaches the sum of 60 billion francs. This makes a general total of 200 billion francs.

billions during the war, they had increased to 130 billions today.

The French Government has pledged itself by a law of 1917, law of national solidarity, a very generous but rather rash law, to completely indemnify the victims on recovering the German debt. This means that the government must pay at once, when it does not yet know when or how it will be paid itself. It is a really tragic financial situation. The government must enter on the budget 15 to 20 billion francs (21 billions in the budget of 1920) while it has not yet received anything from Germany in money, only in natural restitutions (which are quite considerable).

The government does not wish to make its taxpayers (among whom are the victims themselves) support the payment of these indemnities. Therefore, it can only ask for payment by loans. And so it is that its enormous debt increases every year to the extent of the whole amount of this deficit, and it will continue to increase for a long time to come; for even supposing that Germany accepts the conditions that were just imposed on her by the Paris Conference (February, 1921), she will only have to pay, by annuities at first of two billions marks gold,⁷ then of three, of four, of five and finally of six, beginning with 1931, of which France will collect only 52 per cent.⁸ We do not criticize, nor do we think

⁷ The mark gold is worth 1.24 francs gold, and therefore, at the present rate of exchange, about 3.50 francs paper. The two annuities of two billions marks gold, afterward the three annuities of three billions marks gold, that is in all, 18 billions, of which a little less than seven billions is for France, would furnish her accordingly with 24 to 25 billions of francs in five years, while the reconstruction of the devastated regions for these five years will without doubt be triple, and it will not be finished at that date.

⁸ In addition, it is true, she will have an equal share in the annuity eventual of 12 per cent in exports.

that a heavier burden should be imposed on Germany, but it is none the less true that the period of the enormous deficit for France may last a very long time. Yesterday (February 6, 1921), the Premier, M. Briand, in the Chambre, contemplated the eventuality of an annual loan of a dozen billions for about ten years, which would increase our public debt to a figure of more than 400 billion francs! Let us

hope that we shall avoid such a calamity, a calamity that can only be avoided when France finds a way to discount the annuities that are to fall due, in the form of some capital that can be immediately realized. For this there is needed someone who would be willing to advance the money owed by Germany, and there is no one but the United States that could assume this rôle of saviour.

The Sources of the Receipts of the French Government in 1920

By GASTON JEZE

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THE year 1920 marks in France a very important date. Taxes were suddenly carried to an enormous figure. New taxes of more than eight billions (estimated) were created by the laws of June 25, 1920, and of July 31, 1920. The budget for 1920 valued the "ways and means applicable to the ordinary budget for the 1920 period" at the total of 21,770 million francs. The budget voted July 15, 1914 foresaw receipts for 5,191.6 million francs (against 5,191.6 million francs in expenditures); but in the receipts, the loans amounted to 298 million francs and moreover there was expected an exceptional receipt of 112.5 million francs. For 1913, the receipts expected had been 4,738.8 million francs. At any rate, the following is a comparative table of the expenditures and receipts executed from 1903 to 1912 (in millions of francs).

<i>Period</i>	<i>Receipts</i>	<i>Expenditures</i>	<i>Surplus or Deficiency</i>
1903	3,667.6	3,597.2	+70,330.5
1904	3,739.0	3,638.5	+100,522.2
1905	3,766.3	3,706.8	+59,508.0
1906	3,837.0	3,852.0	-15,009.3
1907	3,968.4	3,880.2	+88,126.9

1908	3,966.4	4,020.5	-54,144.6
1909	4,140.9	4,186.6	-45,177.5
1910	4,273.9	4,321.9	-48,027.8
1911	4,689.0	4,547.9	+141,130.1
1912	4,857.5	4,742.8	+114,735.1

And here is seen the important progression of the receipts of the government between years anterior to 1914 and 1920:

1914 5,191.6 millions in 1914 (estimated)
1920 21,770.0 millions in 1920 (estimated)

16,578.4 million francs increase

Moreover, in the increase, there are a certain number of billions which do not represent, strictly speaking, receipts, e.g., the liquidation of war stocks for four billion francs. During the period 1914-1919, no budget was voted. The Chambres simply granted the government large votes of credit in confidence, called *provisional credits*.¹ The *budget of receipts* was not made out. Moreover, the accounts of the war period are very

¹ The first step in a return to the regular budget methods was the vote of the law of August 12, 1919, fixing the ordinary budget of civil services of the fiscal period 1919. There was no estimate of receipts.

late, so that it is impossible to say just what was the amount of the receipts executed. In his report of July 10, 1920, Senator Paul Doumer, at present minister of finances, valued as follows the receipts executed from August 1, 1914 to July 1, 1920 (in millions of francs):²

Last five months of 1914	1,238.8
Fiscal year 1915	4,113.4
" " 1916	4,640.8
6 first months of 1920	

These data show how great was the load that was suddenly put, in 1920, on the shoulders of French taxpayers.

It is necessary to add the local burdens (departments and communes), which are quite considerable. In the absence of recent documents, it is impossible to say exactly what it is. All that is known is that it is formidable.³ Therefore, the figures resulting from the budget of the government only give a very inexact idea of the matter.

CLASSIFICATION OF RECEIPTS ACCORDING TO THEIR SOURCE

The French budget classifies receipts with very little system. There is no scientific criterion. The classification of the 1920 budget (in millions of francs) follows:

I. Proceeds collectible in France:

(a) Taxes and revenues	10,407.1
(b) Proceeds of industrial monopolies and exploitations of the government	1,998.4
(c) Proceeds and revenues from government property	142.7
(d) Receipts from public funds	489.6
(e) Divers proceeds from the budget	235.6
(f) Extra resources	8,415.0

II. Proceeds collectible in Alsace-Lorraine

III. Proceeds collectible in Algeria

Total of the ways and means applicable to the ordinary budget of the 1920 fiscal year

(death duties). However, in the great majority of countries and for all theorists of public finances the two taxes are essentially *direct* taxes. Likewise, the extra tax on war profits (excess profits duty) is, in French administration, a direct tax. Finally, the French Government does not make any scientific distinction between taxes

and duties (fees). It would be possible to multiply examples. The official classification should not be overlooked in grouping taxes and receipts. Here are the chief sources of receipts offered according to a grouping which is in no way severe, as they were expected for 1920 (in millions of francs). No important changes are proposed for 1921.

I. Taxes on the revenue from capital

Land tax (lands)	254.7
Constructed property (houses)	151.6
Revenue of personal property (securities)	318.7
Revenue of credits, deposits and securities	27.5
Rent from the mines	15.1

II. Taxes on the revenues from commerce and industry

Extra tax on war profits ⁴	4,000.0
Commercial and industrial profits	500.0
Tax on patents, individual and commercial profits	14.4

III. Tax on profits from agricultural exploitation

IV. Taxes on salaries, indemnities and emoluments, wages, pensions	55.0
Profits from non-commercial exploitations (lawyers, doctors, etc.)	8.0

V. General tax on revenue

Tax on rents of houses	5.3
Tax on doors and windows	3.5

VI. Luxury taxes

Carriages, horses, mules	18.3
Billiards	1.6
Clubs, societies and meeting places	1.3
Automobiles	37.0
Game-keepers	0.6
Guarantee from articles of silver and gold	13.7
Playing cards	2.5

VII. Taxes on capital:

Donations	22.1
Inheritance	478.6
Mortmain property	44.3

VIII. Taxes on business

Transfers of property	712.3
Recording agreements, deeds, etc.	268.6
Mortgages	18.0
Capital insured against fire	5.2
Stamp duty	320.7
Exchange transactions	16.1

IX. Taxes on payments

Special tax on payments	516.2
Amount of business	2,084.3 ⁵

X. Custom-house

1,770.0⁶

⁴ In arrears and current year. The tax is now repealed.

⁵ The expectations were much greater than the collections. The lowest value in the collections was more than 60 per cent, more than one billion francs.

⁶ Not including the tax on salt.

XI. Consumption taxes	
Beverages (wines, ciders, beers)	504.5
Alcohols	430.7
Mineral waters	6.5
Vinegars	6.0
Drug specials	14.5
Licenses from dealers in beverages, etc.	46.5
Chicoree and other succedaniums of coffee	29.3
Mineral oils, petroleum, gasoline	8.5
Candles	4.1
Salts	31.7
Transportation by railroad	350.0
Transportation by other vehicles	3.3
Theatrical performances	20.0
Sugars and saccharine	367.2
XII. Industrial monopolies and exploitations of the government	
Matches	73.4
Flints	1.6
Tobaccos	975.0
Powder for fire arms	14.2
Other exploitations	4.5
Railroads in Morocco	12.0
XIII. Postal, telegraph and telephone systems	
Postal System	591.8
Telegraph System	163.3
Telephone System	174.8
XIV. Property of the government other than the forests	
Forests	90.1
XV. Duties (fees)⁷	52.5
XVI. Extra resources	150.0
Proceeds from the liquidation of war stocks or materials	2,915.0
Previous deduction on the surpluses 1920 ⁸	1,500.0

These are estimates of reports, according to the general report of the deputy, Mr. Charles Dumont, on the budget of 1921 (January 12, 1922, No. 2,002, p. 12), the proceeds executed from January 1 to December 31, 1920, were lower than the expectations.

The collections amounted to 17,587 million francs, viz: there remained to

⁷ The figure carried under this head is only approximate; it includes a certain number of receipts classed by the budget as taxes for the testing of weights and measures, measures for alcohol, measures for densities, taxes for visits to drug stores, rents of all kinds, university rents, etc. etc.

⁸ This signifies that at the time when the budget was voted for (July 31, 1920), the receipts, on the basis of the existing taxes, from January 1 to July 31, 1920, had given a superior value (on the estimates) of 1,500.0 million francs.

be collected in virtue of the 1920 period 2,357 millions.⁹

Collections:

Direct taxes and assimilated taxes	757.0
Extra taxes on war profits	2,393.6
Recording	2,778.0
Stamps	515.9
Exchange transactions	24.6
Tax on the revenue of personal property	567.5
Special tax on payments	804.4
Tax on the amount of business	942.2
Custom-house	1,591.5

⁹ That includes the taxes on the revenues of capital, commerce and industry, with the exception of the tax on war profits, of wages, the general tax on the revenue of several luxury taxes, but not the tax on the revenue on personal property.

Indirect contributions ¹⁰	1,699.4
Colonial commodities ¹¹	141.6
Salts	33.2
Sugars	429.5
Essences, petroleums, gasoline	39.3
Monopolies	1,586.3
Postal, telegraph, telephone systems and various exploitations	915.8
Property of the government	144.1
Order receipts and various proceeds	583.9
Liquidation of French stocks (articles) ¹²	1,649.6
Total	17,587.4

The rest to be collected for 1920 would amount to 2,357 million francs, namely:

Direct contributions	302.0 millions
General tax and taxes on the revenues ¹³	1,100.0 "
Tax on war profits	945.0 "
In all, for the direct taxes and assimilated taxes, there was expected	1,922.6 "
There was collected or there remains due	2,159.0 "
For the extra war profits tax, there was expected	4,000.0 "
There was collected or there remained	3,338.6 "

There is here a large deficit. For the consumption taxes, the largest deficit is that of the tax on the amount of business. There was expected for the last five months of 1920 (the tax was only applied counting from July 1, 1920; it is collected each month on the business of the preceding month), 2,082 million francs. These are the results (in millions of francs):

	Proceeds	Estimates
July, August, 1920	292.8	700.0
September	234.4	460.0
October	205.5	460.0
November	203.2	462.3
Total	935.9	2,082.3

¹⁰ Excise.

¹¹ Including tobaccos.

¹² The liquidation of American stocks furnished 870 million francs. This is not a receipt of the budget.

¹³ The lists of taxes for 1920 could not be put on collection until the end of 1920 or the beginning of 1921.

The deficit is 1,146 million francs, that is 55 per cent of the income expected. For the other taxes and the monopolies, the collections noticeably exceeded the estimates.

GENERAL ORIENTATION OF THE FISCAL SYSTEM

The Allied experts at the technical conference of Brussels on reparations, sent to their governments a common report on the comparative fiscal burden in Germany, France, Italy and the United Kingdom.¹⁴ It is stated there, in regard to France: "Total amount of permanent and extra taxes, 15,471 million francs, corresponding to 390

francs per capita, 169 francs in permanent direct taxes and 120 francs in indirect taxes." It is not easy to see how the Allied experts arrived at this statement. The French fiscal system is thought to give a preponderant place to indirect taxes. According to the experts, the direct taxes would be much greater than the indirect taxes (about three-fifths of the total of taxes). And so, what is the criterion of classification adopted by the experts? It does not fit in with the table of receipts of the government for 1920.¹⁵

The main characteristic of the present French fiscal system is the enormity of the consumption taxes established in the course of recent years. The pro-

¹⁴ *Le Temps* (*The Times*), Feb. 5, 1921.

¹⁵ According to the same experts, in Great Britain the direct taxes would be five-eighths of the whole amount of the taxes, so that the proportion would be about the same in France as in England. This is certainly a mistake.

testations of the socialist and radical parties against this policy have been energetic, but without success. The taxes on capital occupy a very modest place, the inheritance and donation taxes only furnish 500 million francs. The most favored class of society is that of the peasants. Their agricultural profits are considerable: their assessment is small, and yet it was raised to enormous proportions in

1920. It seems that maximum imposition on the French people has been reached. It is in the direction of a more equitable division of the burden among the classes of society that changes must be brought about. Nevertheless in March 1921 Senator Cheron, reporting for the Finance Commission, showed the necessity of collecting additional billions of taxes in 1922 to bring about equilibrium.

Basis for Reform of Federal Taxation

A SUGGESTION OF CORRECT PRINCIPLES FOR GENERAL REVISION OF REVENUE SYSTEM¹

By DANIEL C. ROPER

Formerly Commissioner of Internal Revenue of the United States

IT is generally understood that Congress must undertake a revision of revenue legislation. The war revenue acts have rendered heroic service. For the immediate purposes sought they proved to be nothing short of marvelous. The Congress is entitled to the unstinted thanks of the American people for these great tax laws. They are, however, out of joint with the after-war conditions. The laws will no longer yield the revenue which the government must have, and operate so inequitably that the fleece is not worth the cries of peace-time business and industry.

Everyone hopes that Congress will deal with this serious problem comprehensively and decisively—not piece-meal or tentatively. Congress is always reluctant to change a tax law that is producing the necessary revenue, but once convinced that the revenue will not be forthcoming, we may hope that our national lawmakers will bring forth a constructive law which will adequately support the Treasury and at the same time stimulate our economic readjustment by removing the most fruitful cause of uncertainty and hesitation.

UNDERLYING PRINCIPLES

It seems to me that before attempting to consider any of the numerous programs for tax revision which will be presented, we should get clear in mind the underlying principles and the

practical considerations which should control the decisions to be reached. The tax program itself should not be approached until the fundamentals have been laid down and agreed upon. Many citizens and groups of interested individuals have prepared elaborate suggestions for Congress. The trouble with many of them is that they start from biased or selfish viewpoints and proceed to erroneous and unsound conclusions.

For myself, I would not present and insist with Congress on a certain tax program. I prefer to leave that difficult problem to the Congress where the clearing house of ideas exists and where under the Constitution the responsibility for such legislation is lodged. My desire is that the legislators will endeavor first to get a clear understanding of the whole situation, that they will test every proposal according to its administrability and that they will act comprehensively and consistently on the entire revenue question.

CHIEF CONSIDERATIONS

If Congress proceeds in this orderly fashion it will not be so very difficult to winnow the wheat from the smothering mass of chaff. To my mind, the chief considerations are:

1. The revenue requirements should be reduced by every possible economy in operating the government and by refunding where and when safe financing will permit.

2. Salvage of war materials should be expedited and the estimated yield deducted from the revenue requirements.

¹ Reprinted from the Business Annual of *The Journal of Commerce*, Jan. 3, 1921.

3. A tariff policy should be decided upon and consistently followed to produce revenue of a certain sum, which also should be deducted from the aggregate requirements in order to arrive at the sum which must be raised by internal taxes.

4. Tax administration should be strengthened by eliminating taxation for police or regulatory purposes.

5. Several objects of taxation are necessary, but the list should not be unduly extended.

6. No tax should be made to carry an excessive rate.

7. A tax established and working smoothly, if productive, should not be hastily discarded.

8. Entire equity can not be attained; simplicity and certainty are more important.

THE PUBLIC DEBT

The next generation will be more greatly benefited by the preservation now of the national heritage of political and economic institutions which should be passed on unimpaired, than by an immediate final distribution of the cost of the war. The resumption of normal production and distribution should not be retarded by burdens which can be avoided. The refunding of the public debt is an obvious expedient to reduce the revenue requirements and not only decrease the annual tax levy but also simplify the system of collection. Beyond a certain point a tax can not be made to yield more revenue by increasing the rate, and resort must be had to other and additional objects of taxation. Therefore, by reducing the amount of revenue required, the number of taxes, as well as the rates, may be decreased. The operations of the government must be placed upon an economic peace-time basis as early as possible. All the countries seem to be suffering from a raid on the part of unqualified citizens to serve and a disposition of those especially qualified for service to pursue business rather than

government endeavors. The country needs the constructive assistance of its best citizens as much in peace as in war.

SALVAGE OF WAR MATERIALS

With the present increasing unemployment and decreasing production in many lines the time is most opportune for closing out the vast stocks of war munitions. From clothing to building material, through a numerous category of useful articles, the government still has on hand an accumulation of products intended for the military and naval forces which should be promptly salvaged. Not only will activity in this direction be productive of considerable revenue, but an outlet can be provided for some unoccupied labor, and commodities will be made available to supplement the warehouses and shelves of merchants which are soon to be seriously depleted.

TARIFF AND TAXATION

Readjustment of the tariff in the light of changed economic conditions will probably be undertaken soon. In working out this readjustment it seems to me that it is highly important to fix upon a definite revenue objective and to adjust the various schedules to produce as nearly as can be estimated a certain sum annually. Unless the tariff is thus treated as an integral part of the revenue program it will be difficult to reduce the tax burden to the full extent which would be practicable if the yield from the tariff is decided upon in advance of all the detailed adjustments.

TAXATION FOR REVENUE ONLY

The federal taxing power has been extended to embrace matters of regulation, such as the adulteration of butter and flour, the misbranding of oleomargarine, the traffic in narcotics, intoxicating beverages and alcohol, the

employment of child labor, and the control of personal expenditures for luxuries. Quite aside from the interesting constitutional question involved in this legislative tendency, it seems to me unwise from purely administrative considerations to complicate the taxation system and to elaborate its organization for these essentially extraneous purposes. Federal taxation has grown to such proportions that good administration, as well as wise legislation, in this field is of importance paramount to even the most laudable police measures. Such police measures, including the enforcement of prohibition, should be handled by agencies separate and distinct from the Bureau of Internal Revenue. The officer charged with responsibility for administering such tax laws as we now have or any which can be substituted for them should not be required to turn aside continually from the main task to unrelated activities, which must nevertheless be carried on consistently and coördinately under the general revenue statutes. This branch of the government should be left free to concentrate and specialize on the sole problem of taxation for revenue. Economies in administration, as well as other valuable purposes, will be secured by consolidating all the federal tax collecting machinery. This would effectively coördinate the customs and internal revenue services.

OBJECTS OF TAXATION

Probably few people realize how difficult it is to inaugurate a new tax so as to drain properly an untried field of revenue. It is somewhat like the commercial experience of entering a new market, or like the industrial experience of taking on a new line of manufacture. Adjustment, conversion, recruitment and trial of men and materials are involved. Results can not be immediate. It was very fortunate that in 1917 we

had the income tax law, experience of several years in its interpretation and operation, and the framework at least of an organization. This tax soon became the keystone of the arch. The old taxes linked with the traffic in alcoholic beverages passed away (as revenue measures) with the Eighteenth Amendment, and today the income and profits tax is depended upon for three-quarters of the internal revenue.

In this situation there is danger, for the yield of any tax fluctuates with the changes occurring in the object to which it is applied. If too much dependence is placed on a single tax the national revenue will be uncertain. At the present moment conditions controlling incomes and profits are such that grave apprehension is entertained whether the existing revenue laws will yield adequate revenues. The government should not place all its golden eggs in one basket or in too few baskets. New objects of taxation are needed and must be decided upon so that the machinery for developing them may be built up, set running and made to find itself in smooth running coördination of its parts. These objects should be judiciously chosen, and, also, they should not be too numerous. Multiplicity of taxes gives rise to natural vexation and feeling of harassment on the part of the taxpaying public and administration.

MODERATE RATES

“Who pays the tax?” is a question which has given rise to so much conjecture and controversy as to suggest the answer that nobody knows. Somewhere it is absorbed. The government gets it and from someone’s substance it is yielded. In the cases of taxes on business it is probable that the buyer pays the tax in the seller’s market and vice versa, but each individual transaction would have to be scrutinized,

and even then the elements affecting the fixing of price are so complex that sure decisions could hardly be reached. As long as the rate of the tax is moderate, evasion will be hardly worth while, diversion of economic currents will not occur, and there will be little protest. A high rate applied to any tax, however, will stimulate evasion, divert the course of ordinary business and living to other channels, and arouse resentment. It will, moreover, defeat its own purpose by yielding less revenue than a lower rate. We have this now occurring with the income surtaxes, which are so high that savings are being driven into tax-free securities. The conclusion is obvious that even the best tax ceases to be a good tax if the rate is placed too high.

ACCUSTOMED USE

All taxes are necessary evils, and especially new taxes. I would place as the first mark of a good tax "accustomed use." The excess profits tax has had use, and we are accustomed to it. This, however, is the only good mark which this tax now has, for even its productivity is on the wane. On the other hand, the great merit of the tobacco tax is accustomed use. This is a productive, well-established tax, thoroughly absorbed by the industries, businesses and consumers affected, and reduced in operation to a fairly satisfactory routine through many years of administration by the Tobacco Division of the Internal Revenue Bureau. Even this tax should not be made to carry an excessive rate.

A new tax is a disturbing element. It carries friction and uncertainty to every point of incidence. Its effects are magnified by apprehension. Every step in its assessment and collection occasions more expense and annoyance, and is more fraught with the possibility of error and fraud during the first year of

operation than at any time thereafter until it acquires the great virtue of "accustomed use." The responsibility for imposing a new tax is serious. At the outset, a new tax should be made as simple as possible and the rate should be low.

NO EQUITABLE TAXES

The endeavor to make a system of taxation equitable is apt to lead us into many pitfalls of inconsistency and confusion. The fact is that entire equity can not be attained under any system of taxation. If a general tax law operates so as to impose gross hardship on some taxpayers it is better to repeal the law and substitute something better than to attempt to patch it up with so-called "relief" provisions. Provisions of this kind in the 1918 Revenue Act have caused more administrative difficulty and more contention and protest than any of the original provisions of the 1917 law. Certainty and simplicity are far more important in a tax measure than the abstract element of equity. If the incidence of a tax is widespread and the weight is not burdensome we need not concern ourselves too much as to whether all classes of citizens are affected alike. Taxes have a way of being absorbed into the general economic situation.

Consideration of equity should not control the decision with respect to proposed taxes, for there are many other considerations which are more important. Also the administrative machinery should not be burdened with the responsibility for distinguishing between taxpayers. We cannot hope to attain these ends suddenly or even to avoid hardships in the new law and its enforcement. Simplicity in our tax laws and sympathetic attitude in administration on the part of the public and the enforcing officers should, however, be made the burden of all endeavor.

The Inheritance Tax

By M. H. HUNTER

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THE expenditures of all political bodies have been continually increasing. In normal times, the public has kept demanding that its governmental units undertake new and expensive functions, the cost of which has not always been considered. Some of the ordinary costly functions of modern governmental units are the establishment and maintenance of educational systems; the provision for defectives, delinquents and dependents; the protection to person, property and health; the building and maintenance of highways; and the regulation of railroads and public utilities, as well as numerous other forms of regulation. When an emergency arises, such as the Great War, expenditures, especially those of federal governments, mount to almost unbelievable heights.

All these increased expenditures must be met by increased revenues. So long as wealth and population increased more rapidly than the demand for additional funds, the individual burden was not increasing and, consequently, little interest was shown in the expenditures and revenues of political bodies. As the new burdens became more noticeable, citizens became concerned about the use to which funds were put, and about the justice of the methods by which they were secured. This has led fiscal officials, in their search for additional revenues, to use sources which will not only be productive of funds, but which can be upheld under the principles of justice, and which will cause a minimum of opposition from the public. The inheritance tax has been one source of revenue, the use of which has been

greatly extended under these conditions, and which is likely to be extended much further in the future.

INHERITANCE TAX NOT OF RECENT ORIGIN

Most of the discussion of the inheritance tax has come in comparatively recent years, and to the uninformed this form of tax appears as a modern development in fiscal policies. It is an error, however, to consider the taxation of inheritance as being exclusively a modern fiscal device. As a matter of fact, some form of levy upon the transfer of property at death, dates back as far as authentic records can be obtained. Some traces of the use of this principle can be found as early as 2000 B.C. It appears that a well-defined system of levies on property successions existed in Egypt for a number of years before the Christian era. The emperor Augustus, moreover, used a tax on property transfers shortly after the birth of Christ. He desired to provide a fund for the pensioning of old soldiers, and proposed a tax of one-twentieth upon inheritances, to which the Senate consented only after he threatened to use a direct land tax. No distinction was made between bequests to relatives and to strangers, and only a low exemption was allowed. Some of the later rulers alleviated the stringency of the law to some extent by the recognition of family ties and dependency, consequently exempting some of the more direct bequests, such as between mother, father and children. Still later, these exemptions were removed and the law was made even more stringent than it had been at first, although it was again modified

before the tax was given up, probably about the beginning of the fourth century.

A semblance of the modern inheritance tax is found in the system of *reliefs* which existed in the Middle Ages. At the death of a tenant, the right of the tenancy to pass to his heir was recognized, yet some exactation was made by the landlord. So long as the amount could be voluntarily determined by the landlord, extortionate demands were often made, which practice led to the establishment of uniform rates by legislation. These duties, as well as another class of duties which were levied upon the transfer of property other than land, were found in a number of countries. They, of course, expired with the breakdown of the feudal régime. Sporadic attempts were made, however, to use some form of succession levy, especially in the countries on the continent, down to the formulation of permanent inheritance tax laws.

In their discussions of ways and means for raising revenues, the early writers upon fiscal subjects generally gave space to a consideration of inheritance taxes. Adam Smith opposed the principle because he thought it did not conform to his canons of taxation. He contended that it increased the transfer of capital, which was the basis of productive labor of individuals, to the use of the state, the most of whose activities are unproductive. He did admit, however, that when the property descended to others than dependents, it might be taxed without a feeling of any very great inconvenience. Ricardo objected to the tax on the ground that it was a capital levy. His reasoning was that, if a man paid a tax of \$100 out of a bequest of \$1,000, he would have no inclination to save the amount of the tax, but would consider the be-

quest as one of \$900. If, however, he were allowed the \$1,000, and were then assessed the amount of the tax on some objects of consumption, he would retrench expenditures in order to save the necessary amount.

John Stuart Mill and Jeremy Bentham may be cited as examples of early writers who advocated the use of inheritance taxes in the extreme. Mill expressed the opinion that inheritances, other than to near relatives, should be abolished; that the amount which could be received by bequest should be strictly limited, and that rates should be progressive. He denied any right of inheritance, and contended that both individuals and society would be better off if no one were freed from the necessity of working by the receipt of a large fortune.

Bentham favored the inheritance tax because he thought it would produce revenue with the minimum of sacrifice. He expressed his position in the form of a paradoxical question: "What is that mode of supply, of which the twentieth part is a tax, while the whole would be no tax and would not be felt by anybody?" He contended that his position would be accomplished if the power of bequest of persons having no direct heirs were regulated, and that all cases of intestacy—descent of property when no will had been made—be abolished, except among near relatives. A person who had expected no inheritance would feel no burden if the state took the entire amount. If, however, an estate had been given to him, and then a part taken for taxes, the burden at once would be apparent.

These views of Smith, Ricardo, Mill and Bentham are but representative of many which were expressed by early writers upon economic topics. It is readily seen, moreover, that inheritance taxes are not the product of

modern minds, but that they have had a long course of development.

MANY CLASSES ADVOCATE TAX

It is not necessary to turn to earlier years to find those who advocate the use of the inheritance tax. Much of the earlier opposition has broken down, and ardent supporters of the principle may be found among all classes, among those interested in social as well as fiscal reform, and among the rich as well as among the poor.¹ Because it can be used to encourage a social equality and as a means for a fairer distribution of tax burdens, it has found its most extensive development in the more democratic countries, such as Great Britain, Switzerland and the United States.

It is but natural that individuals who are socialistically inclined should be strong supporters of the inheritance tax, for it can easily be used as a method for the reduction of large fortunes. Those who are concerned with securing a more equitable distribution of the tax burden on the basis of ability to pay, and who are only secondarily interested in the social consequences, have come to look upon the inheritance tax as a valuable addition to the fiscal system. Fiscal authorities, both federal and state, in the severe pressure for funds which has continually existed during recent years, have been glad to turn to this previously little used source of revenue to help replenish an empty treasury. Still others sanction the use of a severe taxation of inheritance, not primarily for an equalization of wealth *per se*, nor as a source of revenue, but because of the beneficial effects which a limitation of fortunes would have upon the recipients. As might be expected, labor organizations of various kinds have been enthusiastic supporters of the principle, as also have been the

members of the more radical political parties. Theodore Roosevelt is an example of a national statesman and leader who thoroughly believed in the justice of taxing inheritances.

An interesting example of an advocate of the extreme use of inheritance taxes because of the expected beneficial results upon the recipient, was the late Andrew Carnegie. He held, in his numerous writings and speeches, that it was a mark of misguided affection for parents to leave great fortunes to their children, especially to sons. To do so deadens their talents and energies and results in a less useful life than would otherwise result. A man, he thought, should be prevented from handicapping his son by bestowing great wealth upon him. He believed, further, that the proper use of great riches is to benefit society from which they have been taken. If, then, men persist in amassing great fortunes without making a just social return, the state should make sure of its proper share by the use of an inheritance tax. He advocated a steeply progressive rate to as high as 50 per cent, and believed that a large part of the needed revenue could be secured from this source, with the feeling of very little burden.¹

JUSTIFICATIONS FOR TAX

There is perhaps no part of any fiscal system which has had so many and diverse arguments advanced in its favor as a tax upon the transfer of property at death. These range all the way from arguments of a purely social nature to those justifying the principle as a part of the fiscal machinery. The social arguments, for the most part, look to the limitation of fortunes, and follow closely the ideas of Bentham and Carnegie.

¹ Mr. Carnegie's views on inheritances are elaborated in his book, *The Gospel of Wealth*.

One common justification for the inheritance tax is known as the extension of escheat. This is based upon the principle that there is no natural right of inheritance—that the state has gone a long way in allowing an individual to have control over property while alive, but would be going entirely too far to allow him to have control over it after death. The disposition of property after death, then, is really a state function, and it is a matter for the state to decide to what extent property shall be inherited. Under this theory there is little basis for the justification of collateral inheritance, while it becomes the duty of the state to determine to what extent and under what conditions direct inheritance shall be permitted.²

The argument which has branded the inheritance tax as "socialistic" has been what is usually known as the diffusion of wealth argument, that is, its use for the purpose of breaking up large fortunes to more nearly equalize the ownership of wealth. Many proposals have been made, and some laws have been enacted, with this purpose in mind. It has been proposed, for example, to fix a maximum amount beyond which inheritance would not be permitted. The steepness of the rate of progression in the laws which have been enacted reflects to some extent the limitation which was intended to be put upon inherited fortunes.

The use of the inheritance tax as a regulator of the size of inherited fortunes need not, however, be condemned as a socialistic proposal. It may be desirable to limit the amount of an

inheritance for reasons other than the mere diffusion or equalization of wealth. If, as Mr. Carnegie contended, the moral, social and economic efficiency of the citizens of the state is impaired because of the succession of large fortunes, then it becomes the duty of the state to impose regulation. Inheritance taxes, from this viewpoint, would properly come under the jurisdiction of the police power when levied by the commonwealth. Since, moreover, the right of inheritance is not considered a natural right, but one granted by the state, any limitation which the state may see fit to impose must be considered justifiable and not an encroachment on the right of private property.

Some attempts have been made to justify the taxation of inheritances because of the benefits which the state gives in making the transfer of property, or has given in the accumulation of the property. The mere transmission of wealth at death inevitably places some burden upon the state with an accompanying expense. Court officials must be maintained for the purpose of making the transfer in a proper manner, and for guaranteeing the title to the property. While this service is maintained primarily for the benefit of the public, yet at the same time a special benefit is conferred for which it is perfectly proper to make some exaction. From the nature of the case, and in comparison with other similar court services, the payment required would be no more than the cost of rendering the service. This would be a fee payment and could scarcely be classed as a tax. The payment would necessarily be small, and there would be no place for progressive or even proportionate rates. A uniform charge for a bequest of any size would be the most logical, since the cost to the court would vary but

² By a collateral inheritance is meant the devolution of property to non-relatives or to distant relatives, as cousins, nephews and nieces. A direct inheritance refers to one in the immediate family, as between husband, wife, son or daughter, and sometimes between brother and sister.

little with the size of the estate. This principle is the chief consideration in the laws relating to inheritances in some of our states.

A more strict attempt to use benefit as the basis for the levy against the transfer of an estate is found when it is claimed that the state should exact an amount based upon the value of its service to the recipient of the transfer. This argument again goes back to the principle that there is no natural right to transfer property after death. The state, then, has conferred a benefit on the recipient by establishing the institution of inheritance and consequently making it possible for the transfer to take place. A valuable benefit has been conferred thereby, for which payment should be exacted. The state, furthermore, looks after the safe transfer of the property and places the title securely in the hands of the recipient which enhances the value of the benefit. The difficulty with this argument is the difficulty with the whole theory of benefit as a base for taxes. To measure accurately the value of the benefit in each particular case would be impossible, and the justice of the tax would therefore vary according to the accuracy of the measurement.

Still another application of the principle of benefit is found in the concept that the state has been a contributing factor in the accumulation of wealth, and at the death of the holder is entitled to its share, rather than have the whole pass to someone who was only remotely, or not at all, instrumental in the production of the wealth. Society, because of its contributions to the accumulation of fortunes, has a right to demand a return through a contribution to the government at the death of the holder. Here again the difficulty of accurate measurement presents itself. That

society and governments are instruments which aid the accumulation of individual wealth are outstanding facts, and it is for such intangible and immeasurable benefits as this that general taxes are levied. The use of the principle of benefits in tax levies, because of the difficulties encountered, has all but been discarded.

CONFORMITY TO MODERN FISCAL CONCEPTS

A consideration of justice in taxation would reveal that, through a process of evolution, the most commonly accepted principle for the just levy of taxes is ability to pay, with perhaps some consideration for the utilitarian principle of the greatest good to the greatest number. To students of fiscal problems, at least, a study of the inheritance tax from this standpoint assumes a rôle of primary importance. Many arguments have been advanced to justify the use of the inheritance tax as a part of fiscal systems, some of which are worthy of review.

One of the earlier justifications for the inheritance tax was that it is but a collection of the taxes which were expected to be paid while the fortune was in the process of accumulation. This is commonly called the back tax argument. The reason has been effective, and not without foundation because of the widespread evasion of personal property taxes. This argument, in fact, has been used extensively in securing inheritance tax legislation. From the standpoint of pure justice, however, such reasoning can not stand. The evasion of taxes upon different accumulations of wealth has by no means been the same, and yet it is impossible to attempt any discriminations on the basis of the extent to which taxes have been evaded. In this respect, the inheritance tax falls alike upon the just and the unjust.

A slightly different form of this argument, and one the force of which is somewhat diminished since the extensive introduction of income taxes, is that an inheritance tax is but the payment of a tax which, in justice, should have been levied during the life of the decedent. It is simply a culmination of past property taxes, or income taxes, which were never levied, and which are now made payable at a more convenient time—when the individual has no more need for his accumulations.

The inheritance tax conforms, in large measure, to the principle of ability to pay. The payment of no other tax, perhaps, is so lightly felt. It is paid after the property has left the hands of the decedent and before it reaches those of the recipient. An inheritance is a sudden and often unexpected receipt of property. This additional property creates tax-paying ability, but never is the ability so great as before the property enters into the activities of the benefactor. In a few cases, of course, this increase in ability fails to materialize, as when a provident husband and father is taken from a wife and dependent children. Such situations are the exception, however, and can easily be cared for by the formulation of the law. The tax may be the source of much revenue with a minimum of sacrifice and with a small derangement of enterprise. In this respect it conforms to the modern utilitarian ideals of justice.

It is not surprising to find individuals who are looked upon as conservative, yet who are ardent enthusiasts for the adoption of the inheritance tax. With the constant growth in the functions of the state, the demands for revenue from the old sources have begun to cut deeply, and some relief from this previously little used source is looked upon with pleasure. The ease with

which the burden is carried also makes a strong appeal. Many desirable state functions present themselves, yet the means of getting sufficient funds to carry them out is a pressing problem to which the inheritance tax is considered a partial solution. Many believe, further, that a proper use of the inheritance tax would cure much of the socialistic agitation against wealth, since most of the so-called unearned wealth arises through inheritances.

OBJECTIONS ARE WEAK

Most of the objections to the inheritance tax arise because of some of the reasons which have been advanced for its adoption, or because of some administrative difficulties, rather than to the tax itself. The use of the tax to penalize fortunes which have been amassed in an illegitimate or fraudulent manner is open at once to the objection that there is no way of differentiating the rate directly with the amount of evil connected with securing the estate. Rates have been made to vary with the size of the bequest, and with the degree of relationship, but neither of these is any indication of the manner by which the bequest originated. Many small accumulations of wealth involve a greater amount of dishonesty than many of the large accumulations, and to properly penalize them, the rates imposed would have to be regressive. This reasoning, however, can not be used as an objection to the inheritance tax, but only to its use for a particular purpose.

The objections that the inheritance tax will discourage savings, and can be easily evaded by gifts before death, have, in reality, little foundation. The discouragement of savings is a common objection to any tax. Few taxes, in fact, tend to discourage savings as little as a tax which does not

come until after death. To most individuals the event of death appears as a remote future occurrence, and a tax levied at such a time will have little influence on present accumulations of property. Such a tax may, on the other hand, be an added incentive to greater saving in some cases. To the provident husband and father, who wishes to leave a certain legacy to wife or children, the certainty of a tax deduction will necessitate the accumulation of a larger amount. Until a material change occurs in human nature, the evasion of the tax by a distribution of the property before death will be insignificant. Most men wish to retain title to their property while they are alive, and would rather the state secure a part of it at death than to give up the privilege of retaining it in their possession.

The objections that the tax falls with varying frequency upon different accumulations of wealth, and that it falls upon capital rather than upon income, are no more serious. It is no doubt true that transfers of property occur more frequently in some families than in others, and where the transfers are frequent, a greater percentage passes to the state than if the transfers are infrequent. The burden, however, is felt by a different individual with each levy of the tax—it is falling upon a newly created ability to bear tax burdens. Any hardship which might arise in the case of direct heirs can be alleviated by a system of exemptions, or by allowing a lapse of a certain number of years before a second tax will be placed upon the same property.

It is true that the burden of the tax may fall upon capital, and this condition sometimes exists. It frequently happens, also, that the tax is met from current income. Whatever may be the source of the tax, as long as the receipts go into the general fund, the

demand for revenue from other sources is lessened to that extent. The amount paid in inheritance taxes does not have to be collected in property, income or other taxes. A larger amount of income can consequently be saved to replace or add to the existing amount of capital. Any tax will directly or indirectly fall upon the accumulation of capital, and the inheritance tax errs here to no greater extent than other forms of taxes.

Two quotations will indicate the esteem in which the inheritance tax is now held.

Firmly entrenched in a long and honorable history, with the endorsement of leading economists of ancient and modern times, and approved by the present practice of most civilized governments, he would be indeed brave who should attempt to attack the theory or validity of any sane inheritance tax from an economic standpoint.³

Professor Underwood characterized the tax as follows: "A defense of the taxation of inheritances is superfluous. Its existence in all but a few civilized nations, and in all but a few of the more backward states, is its chief defense."⁴

ATTITUDE OF COURTS

Hundreds of cases involving different aspects of the inheritance tax have come before state and federal courts, and, with but few exceptions, the decisions have given this form of revenue a firmer place in fiscal systems. Nothing more will be attempted here than to mention a few of the more important aspects of the tax which have been established.⁵

³ Blakemore and Bancroft, *Inheritance Taxes*, p. 9.

⁴ J. H. Underwood, *State and Local Taxation*, Vol. I, p. 211.

⁵ Those who desire to go more extensively into this aspect of inheritance taxes will do well to consult the comprehensive work, *Inheritance Taxes*, by Blakemore and Bancroft, and a similar work, *Inheritance Taxation*, by P. V. Ross.

The constitutionality of the inheritance tax was formerly given much consideration. In regard to this aspect Ross writes:

The constitutionality of the general principles of inheritance taxation has been affirmed by a multitude of decisions, so that the competency of Congress, or the legislatures of the several states, to impose an inheritance tax is universally conceded. The inherent justice and wholesomeness of this system of taxation have so appealed to the judicial mind that all the assaults that wealth, in its aversion to bear its just burdens, has conceived, have proved unavailing. The general doctrine that a state or the United States may raise revenue, and in bountiful quantities, by levying tribute upon estates in the course of transmission from decedents to their successors, is no longer doubted, and most of the attacks now made upon inheritance taxation are upon other than constitutional grounds.⁶

The use of the tax by the Federal Government has been sanctioned by the courts on the ground that it is an indirect or excise tax and therefore does not have to follow the rule of apportionment in the basis of population. It has been held, further, that the use of such a tax comes under the taxing power of the constitution and is not undertaken for the purpose of regulating the transmission of property. Since the powers of the state governments are residual, there is no restriction upon their use of the inheritance tax unless imposed by their own constitutions or statutes. The use of progressive rates has generally been held not to infringe upon the uniform tax clause which is found in many state constitutions.

The courts of nearly every state, those of Massachusetts and Wisconsin forming the principal exceptions, have held that the right of inheritance is not a natural right, but a privilege created by the state, and subject to

such regulations as the state may see fit to impose. It has been frequently held that the tax is in the nature of an excise or franchise tax on the succession of the property, and not on the property itself. As one decision describes it,

It is not a tax upon the property or money bequeathed, but a diminution of the amount that would otherwise pass under the will, and hence what the legatee really receives is not taxed at all. It is that which is left after the tax has been taken off. It is only imposed once, and that is before the legacy has reached the legatee, and before it has become his property.⁷

Some courts have held, however, that the tax is on the right to receive property rather than on the permission or right to transmit it. One decision says that, "Properly understood, it is not the right to transmit, but the right and privilege to receive, that is taxed—it is clear that the right is distinct and separate from the property itself, and the state may tax this right to receive property."⁸

This brief consideration of court decisions, while it indicates that judges have not always followed the same line of reasoning nor reached the same conclusions, shows how firm a legal footing the inheritance tax has attained. Litigation involving inheritance tax laws still arises at times, but it seldom has to do with constitutionality, or the power to impose such a tax. Many technicalities have arisen, but none of the decisions have vitiated the principles upon which the use of the tax is based. So far as any difficulties may have existed in the past from the legal viewpoint, these may now be considered as practically settled, and legislative bodies may feel free to make an extended use of the tax if they have not already done so.

⁶ P. V. Ross, *Inheritance Taxation*, p. 20.

⁷ *In re Finnen*, 196 Pa. St. 72.

⁸ *State vs. Ferris*, 53, Ohio St. 314.

LEGISLATIVE PROBLEMS

While the principle of the inheritance tax may be considered just, and the conclusion be drawn that it unquestionably deserves a place in fiscal systems, this does not preclude the appearance of serious problems in its adoption and use. Some of the questions which immediately present themselves to the formulators of inheritance tax laws are such as the following: What shall be considered an inheritance for the purpose of taxation? What exemptions shall be allowed? What distinctions shall be made between near relatives, distant relatives and strangers? What rates shall be applied? What provisions shall be made to prevent evasions, or the tax becoming unduly harsh upon particular estates?

A determination of what shall be considered an inheritance raises the problem as to what should be deducted from the gross amount of the estate in order to have the proper base for the levy of the tax. All just obligations against the estate, for example, should be deducted. Other deductions, however, which are sometimes permitted, are not always so easily justified. Payments upon life insurance policies are usually not considered as part of the estate, yet the payment of insurance premiums is often looked upon primarily as an investment, with the payment at death as the return. This is true to a greater extent with the extremely large policies, and no good reason appears for allowing their deduction.

Closely connected with the problem of proper deductions, is the determination of the amount of exemption to be allowed, and the proper differentiations because of different degrees of relationship. The soundest approach to a solution is through an attempt to

measure the relative abilities which the receipt of property creates. In the case of a small estate left to a widow or dependent child, there is evidently no increase in ability to meet burdens, and consequently no tax should be levied. In case the estate is large, however, a tax may be levied and no appreciable hardship will result. When an estate passes to distant relatives or strangers in blood, the income is much more of an accidental nature, and consequently less reason exists for allowing an exemption. The nature of the recipient has at times justly received consideration. For example, bequests to public, religious and charitable institutions have not been considered taxable.

The problem of determining the proper rate to be levied is important. Shall it be low or high, proportional or progressive, and to what degree should it vary for direct and collateral heirs? There has been absolutely no uniformity as to the size of the rate. In some countries the rate has been extremely high, in others it has been just as extreme in the opposite direction, while these same variations often exist in parts of the same country. The rate will be governed somewhat by the purpose which the tax is designed to accomplish. If it is intended to prevent the succession of large fortunes, the rate will doubtless be high. If, on the other hand, it is considered that the state should exercise little interference with property transfers, the rates will be low, as they will be, also, if it is feared high rates will cause evasion. There has been little question concerning the advisability of progressive rates, but much discussion has arisen over the steepness of the rate of progression, and how this should be affected by the degree of relationship. Those who would limit the transfer of wealth to a comparatively small amount would have the rate

steeply progressive to 100 per cent. Others would have it only moderately progressive on bequests to direct heirs, and steeply progressive on bequests to others. The general tendency has been to levy a low and slowly progressive rate upon bequests to near relatives, while the rate has been high and more steeply progressive upon other bequests.

It is important, where progressive rates are used, whether the base for the levy be considered the estate or the share. Suppose in an estate of \$100,000, one individual is to receive \$10,000, another \$40,000, another \$30,000, and another \$20,000. If the tax were a proportional rate of 5 per cent, it would make no difference whether it were levied upon the entire estate or upon each individual share. If a progressive scale were in force, say, with an exemption of \$10,000, 5 per cent on amounts between \$10,000 and \$50,000, 10 per cent on amounts between \$50,000 and \$100,000, the difference in tax burden between considering the entire estate and each share as the base of levy, becomes at once apparent. Only a few attempts have been made to use the size of the estate as the base, and these have either been refused by the courts or have been given up for other reasons. An exception is the inheritance tax used at present by the Federal Government, in which the estate is used as the base of the tax.

The gradual extension of the use of the inheritance tax, together with increased and more steeply progressive rates, has increased the likelihood of evasion, and has magnified any injustice which exists in the system. The temptation to dispose of property before death increases with the increase in rates. Cognizance has been taken of this situation, and "transfers of property in contemplation of death" have sometimes been made subject to

the tax. The courts rather consistently held that, in such cases, the burden of proof rested with the state, the result of which was that few proofs were attempted. A more recent development has been legislation to the effect that all transfers of property within a certain period previous to death shall be considered as transferred in contemplation of death, and are therefore subject to the tax. In Wisconsin the period is six years. Recognition is sometimes made of the fact that some successions are likely to occur more frequently than others. If a son should die, for instance, and leave an estate to his father, it is likely a second bequest will follow much sooner than if the transfer had been in the opposite direction. Laws sometimes provide that a second tax will not be exacted if one has been paid within a certain number of years.

PROBLEMS FROM CONFLICTING JURISDICTIONS

The existence of a number of political units, the interests of which are not separate and distinct, and the attempt of each of these units to adopt a system of taxation designed for its own needs with little consideration for those of its political neighbors, has caused many serious problems for those seeking to secure justice in taxation. This situation has enhanced the problem of securing just inheritance taxation, particularly in the United States with its many political divisions. A few of the states do not use the tax, while in the others it varies from a half-hearted attempt to secure a little revenue from collateral heirs, to highly progressive rates upon all estates. The laws lack uniformity not only in respect to rates and progressions, but also in the bases upon which the tax is levied. The result is that some estates are subject to more

than one tax, while others escape the tax they are really expected to pay.

The domicile of the decedent has been used, to a large extent, as the base for levying inheritance taxes. Since the burden varies to such an extent in the various states, it becomes profitable, especially in the case of large estates, to change the place of residence—although the business, property and economic interests are not changed—to a state with lenient considerations toward bequests. Because of the adoption of the income tax by some states, the selection of a suitable domicile assumes a rôle of still greater importance. A state that is lenient in the matter of income taxes, as well as in the levy of inheritance taxes, is bidding to become a popular place of residence for men of wealth. This is particularly true of the eastern states, where the states are small and where there are large accumulations of wealth. The possibility of change of residence has no doubt had an influence in keeping a number of states from making a greater use of inheritance taxes. They have feared to increase the severity of the burden beyond that of neighboring states, lest the wealthy citizens change their domicile.

Many states levy the inheritance tax upon the basis of situs of the real estate and upon the personal property of individuals living within the state. Some states go further and impose the tax upon the shares of stock of a domestic corporation, while some go still further and levy the tax upon such shares of stock, although owned by a non-resident of the state. Some states even tax shares of stock and bonds at their physical location, for example, shares of stock or bonds deposited in a bank for safekeeping, no matter where the residence of the owner. Indebtedness has also been used as a

base for the levy—that is, bonds would be taxed in the state from which issued no matter where the owner lived or died.

The complexity that arises from these diverse methods of levying the tax by more or less competing jurisdictions can easily be imagined. Two, three, four, and even more taxes may be collected from one estate, the injustice of which is at once evident. Suppose an individual dies in state *A*, who was a citizen of state *B*, and who owned \$100,000 in bonds of a corporation chartered in state *C*, the actual property of which was located in state *D*, while the bonds were in a safety box in state *E*. The inheritance tax laws of state *A* taxes the property of every decedent of the state; *B*, that of every citizen; *C*, the bonds of corporations chartered within the state; *D*, the property where located, while *E* taxes the securities at their situs. Under these conditions the bonds would bear the tax rate in force in each of the states. A case as extreme as this would, of course, seldom occur, yet examples of double and triple taxes upon one estate may easily be found.

The chaotic condition of our inheritance tax laws is far from satisfactory. The expense and delay in settling estates is often increased many-fold, while the decisions of the courts have become so numerous and so hair-splitting as to add greatly to the complexity of the situation. The instability of legislation in the different states, moreover, is not conducive to the comfort of investors. Nineteen states modified their inheritance tax laws in 1919. The law in the state of New York has been amended more than forty times. One never knows what may be the condition a few years hence. While no single state may impose an excessive burden upon

estates, yet the piling up of double and multiple taxation may develop an excessive burden which may even necessitate a dismemberment of the property in order to be able to pay the tax.

As much as it is desired to better the situation, a remedy seems far to seek. Some uniform system which would eliminate double taxation would be the logical solution. To secure coöperation among the states, each with its own selfish interests paramount, to the end of a uniform method of inheritance taxation is too much to hope for. The recent reentrance of the federal government into this field of revenue, however, presents a possible solution, yet doubtless a very improbable one. Uniformity could be secured by the individual states giving up their diversified systems, and allowing the federal government to occupy the field with a uniform law. The machinery for the transfer of property, located in the states, would necessarily continue to be used, and a part of the revenue collected could be distributed back to the states. Rates, under this arrangement, could be made high enough to make the inheritance tax a powerful source of revenue. To secure the consent of the states to any such arrangement would be practically impossible, while the finding of some practical basis upon which to distribute a part of the amount collected back to the states presents a problem of some difficulty.

In spite of the difficulties, however, the inheritance tax is destined to play a rôle of much greater importance in the fiscal systems of our states, and probably in that of the federal government, than it ever has in the past. Its outstanding advantages can not but be recognized. The opportunity for fraud and evasion is minimized since the machinery of the courts must be used in making transfers of property.

The receipts come in throughout the year with comparatively few payments compared with the amount of revenue received. For large political units, moreover, the yield is remarkably uniform. It is a tax well suited to provide an elastic feature to a fiscal system—a rise in the rate will not cut off the source of the tax by causing fewer deaths, although a greater amount of evasion may be practiced. The incidence, moreover, is certain—a definite amount is taken from the estate before it reaches the recipient, the burden falls upon him, and he can not shift it. It is a tax in close conformity to Adam Smith's four canons of taxation: it falls according to ability, is certain, is paid at the time most convenient, and should be an inexpensive tax to collect.

USE BY THE FEDERAL GOVERNMENT

The inheritance tax has found a place in the fiscal system of the federal government at several different times. Generally, this has been in times of emergency when the primary object was to secure more revenue. As early as 1794 recommendations were made for a tax upon the devolution of property at death. The first law which instituted a tax of this nature was passed in 1797 and remained in force until 1802. Direct heirs were exempt from the tax, while others were taxed only upon the excess above \$50. The rate was 25 cents when the amount was not more than \$100; from \$100 to \$500 it was 50 cents; the tax on \$500 was \$1, and an additional dollar was added for each increase of \$500. This levy resembled a fee payment and was regressive within each grade, yet in this early levy upon the succession of property at death we find recognition of the principles of progressive rates and a differentiation on the basis of relationship.

After the repeal of this law other recommendations for the federal taxation of inheritances were made, but Congress enacted no similar legislation until 1862. The levy of 1862 was of two kinds, one known as a legacy tax and the other as a succession tax. The rates were progressive, ranging from 1 per cent to 6 per cent, and provision was made for an exemption of \$1,000. The law was repealed in 1870, the revenue having increased from about \$500,000 the first year of use to nearly \$3,000,000 the last year. This last amount represented a little less than 2 per cent of the total internal revenue receipts.

Taxes upon inheritances and gifts were included in the ill-fated income tax law of 1894. In 1898, however, they were again introduced to help meet the emergency need for revenue. This law, which was repealed in 1902, differentiated between degrees of relationship, and used progressive rates which went as high as 15 per cent upon transfers to collateral heirs. The revenue received was not inconsiderable; in 1902-1903 more than 2 per cent of the internal revenues came from this source.

The inheritance tax was again called into use to help meet the emergency revenue needs caused by the Great War. The United States, in reality, began her provision for war revenue before a state of war actually existed. The revenue act of 1916 was largely a preparedness measure, as was also in some respects the revenue act of 1914. The inheritance tax was introduced in the 1916 revenue act. The tax was imposed upon the entire net estate of all citizens, whether resident or non-resident. The tax was upon the estate and not upon each share of the estate. Certain deductions were allowed, as was also an exemption of \$50,000. The rates,

which applied alike to direct and collateral inheritances, were progressive and ranged from 1 per cent on a net estate up to \$50,000 to 10 per cent on all over \$5,000,000. This schedule of rates was increased to range from 1½ per cent to 15 per cent before the law of October, 1917—the one real war revenue act. By the law of 1917, additional rates were placed upon the same grades from one-half of one per cent on the lowest to 10 per cent on the highest—all bequests of more than \$10,000,000. Under this act, therefore, the maximum inheritance tax which could be collected was 25 per cent. Modifications were again made by the revenue act which was adopted in February, 1919. Some attempts were made to place the tax upon each share rather than upon the net estate, but the change was not made. The rates in the lower grades were somewhat reduced, and under this law, after deductions and exemptions are allowed, the schedule of rates payable to the federal government is as follows:

RATES PAYABLE TO FEDERAL GOVERNMENT

<i>Per cent</i>	<i>On Amount of Net Estate</i>	
1	not in excess of	\$50,000
2	between	\$150,000
3	"	250,000
4	"	450,000
6	"	750,000
8	"	1,000,000
10	"	1,500,000
12	"	2,000,000
14	"	3,000,000
16	"	4,000,000
18	"	5,000,000
20	"	8,000,000
22	"	10,000,000
25	above	10,000,000

There has been much disagreement as to the use the Federal Government should make of the inheritance tax. Many authorities hold that this field of revenue should be left entirely to the

use of the states, the expenditures of which are continually on the increase. This contention was partially responsible for the reduction of rates in the above schedule from those of the previous legislation. On the other hand, however, the needs of the Federal Government have increased greatly, and these needs must be met from revenue. The larger the amount that is collected from inheritance taxes, the less will remain to be collected from other sources, perhaps more burdensome. There is no good reason why both the Federal Government and the state governments should not use this source of revenue, nor why they should not coöperate in making the tax uniform and just.

USE BY STATE GOVERNMENTS

Ever since Pennsylvania adopted the principle of the inheritance tax, in 1826, it has been found embodied in the fiscal system of one or more of the American states. Its importance has greatly increased, however, in the last quarter century, and, in 1920, forty-five of the forty-eight states were using some form of the tax. As the needs for revenue continue to become more pressing, as the legislators become educated to the merits of the tax, and as more coöperation can be developed among the different states, a much more thorough use of this form of taxation can be expected as a source of state revenues.

The inheritance tax laws in our states have taken nearly every conceivable form. The early Pennsylvania tax was $2\frac{1}{2}$ per cent levied upon the transfer of property to collateral heirs. An exemption of \$250 was allowed. Two years later Louisiana placed a tax on property going to foreign heirs. Gradually other states were added to the list, and, as the years went by, amendment was placed

upon amendment, the courts became more favorable, until the present diverse and non-uniform systems of the different states resulted. Even if space permitted, little would be gained by giving the method by which each state levies a tax upon inheritances. Changes are imminent in many of the laws, so that a survey which could be given of present methods would doubtless be far from correct in the not distant future.

It is worth while to note what has been done in one or two instances. The State of New York is considered to have one of the best inheritance tax laws. An exemption of \$5,000 is allowed to direct heirs, and \$1,000 to collateral heirs. The rates are as follows:

	DIRECT per cent	COLLATERAL per cent
Above exemption, up to \$50,000	1	5
From \$50,000 up to \$250,000	2	6
From \$250,000 up to \$1,000,000	3	7
All above \$1,000,000	4	8

The law also seeks to avoid double and multiple taxation such as was described above. The estates of residents are taxed upon tangible property within the state, and intangible property wherever it may be situated. No tax is placed upon the intangible property in the estates of non-residents, and only the tangible property within the state is taxed. The intangible property includes such items as money, bank deposits, shares of stock, bonds, notes and similar items. Bequests to religious, educational and charitable institutions, whether within or without the state, are exempt from the tax.

Many other states have modified their laws and the attempt to conform more nearly to the principles of justice

has not always been absent. The influence of the unselfish legislation of such a progressive state as New York has doubtless been felt. California was one of the first states to follow the example set by New York, yet went much further in the steepness of rates. The rate on bequests to direct heirs is progressive from 1 to 5 per cent, while on those to collateral heirs it ranges from 2 to 25 per cent. There is still evidence in some states of the tendency to introduce the tax by first placing it upon transfers to collateral heirs and then gradually extending it to include transfers to direct heirs. A few years ago many states used a collateral inheritance tax with no tax upon transfers to direct heirs, and this condition still remains in a few cases. Gradually, however, the scope of the laws has been extended to include direct bequests, although with higher exemptions and lower rates, until it is likely that the time is not far distant when direct inheritance taxes will be used in all the states where a tax upon collateral transfers is now used.

The abundance of revenue from other sources has made the American states somewhat slow in seizing upon the inheritance tax as a part of their fiscal systems. The tax is one, however, that appeals to public sentiment, and without doubt has come to stay. In the future it will be found to occupy a place of increasing importance in our sources of revenue.

USE BY FOREIGN GOVERNMENTS

Nothing more can be done than to indicate that the inheritance tax has been used extensively abroad. An extended study would reveal how dilatory America has been in seizing upon this principle. The tax has been extensively used in Switzerland, Spain, Sweden, Holland, Italy, Germany, Greece, France, Russia, England, Ire-

land, Canada, Australia, Belgium, Portugal, Austria and many other countries. Highly progressive rates are found in many of these countries, particularly in France, England, Australia and Switzerland. Outside of the United States, the tax seems to have had its broadest development in the more democratic countries.

England has used the principle since 1780. Amendments have been made until the tax takes three forms; one on the general estate, one on the personal property and one on real estate. The estates are graduated and taxed at a progressive rate ranging from 1 per cent to 23 per cent. In France, the maximum rate imposed upon collateral inheritances is over 20 per cent, while the maximum rate upon direct transfers is about 5 per cent. In Italy and Germany the rates have been somewhat higher. The Australasian and Canadian provinces have followed the lead of the mother country, and are making extensive use of the tax with steeply progressive rates.

SUMMARY

The principle of levying some form of a tax upon the transfer of property at death is not new. Traces of the use of the principle may be found among the earliest records. Its importance was not overlooked by the early writers upon fiscal subjects, but much discussion may be found both for and against the use of inheritance taxes. The broadening of the functions of governments, with the accompanying demands for increased revenues, has caused more prominence to be attached to the use of taxing inheritances in recent years. Many theories have been advanced to justify the tax, ranging all the way from those with purely social motives to those which champion it because it falls most nearly in accordance with ability

to bear tax burdens. Some objections have been raised to the use of the principle, but most of them are weak and apply to some of the purposes for which it has been proposed rather than to the tax itself. Much litigation has arisen over its use, but the court decisions have generally strengthened the position of the principle as a part of fiscal systems.

In the use of the tax, many problems have arisen, particularly in the formulation of just laws, and in the double and multiple taxes which have been placed upon single estates because of conflicting jurisdictions. The tax has been used by the Federal Government at different times as an emergency measure, and may be continued as a part of its fiscal machinery. The

states have used it more or less since 1826 but it is only in recent years that much importance has been attached to the fiscal possibilities. Foreign countries have developed comprehensive systems of inheritance taxes.

Since inheritance taxes so admirably supplement income taxes, and since each has become so deservedly popular among fiscal authorities and officials, it is not too much to expect that each will hold a place of vital importance in future revenue systems, not only of federal governments, but also of the provinces and states. Because of its backwardness in the past, the United States may be looked upon to furnish examples of the most rapid extension of the use of inheritance taxes during the next few decades.

The Net Income and Excess Profits Should Be Kept as the Main Sources of National Taxation

By H. C. MCKENZIE

Treasurer, The New York State Federation of County Farm Bureau Associations

TIME was when the average citizen gave mighty little attention to the methods of raising the revenue necessary to run the government: almost all the revenue necessary was raised by the tariff and a tax on booze. Some time ago a great cry was raised because Congress spent a billion dollars in two years. It was called "The Billion Dollar Congress." It is a far cry from that time and an annual budget of \$500,000,000 to the fiscal year 1921 and a budget of \$5,600,000,000.

During the last six months there has been a determined effort to work up public sentiment in favor of changing some of the important features of our present tax laws, notably in favor

of lowering the higher brackets of the surtaxes on individuals and in favor of the repeal of the excess profits tax on corporations. Part of this agitation has been an honest effort to determine how the necessary revenue should be raised, but a great deal of it has been propaganda put out by those who are now carrying a heavy tax burden, and who most earnestly desire to shift the burden to other shoulders. The papers and magazines have been full of statements that the taxes are ruining business, that the excess profits tax must be repealed, and that the system must be revised, and generally without any clear statement of what is to take the place of the abolished schedule.

SOURCES OF REVENUE

The difference between the calendar year and the fiscal year of the government must be kept in mind; also that the fiscal year is known as of the year in which it ends. For example, the fiscal year ending last June 30th was the fiscal year 1920, and we are now in the fiscal year of 1921 and the taxes paid July and December are figured in that year. For the fiscal year 1921 the estimates are:

Income tax, individuals.....	\$1,310,000,000
" " corporations.....	550,000,000
Excess profits tax.....	1,300,000,000
Other internal revenue taxes.....	1,350,000,000
Customs.....	360,000,000
Miscellaneous (including salvage, interest on loans to Allies, etc.).....	651,000,000
Postal revenue (which approximate the appropriations for this purpose) ..	462,575,190
	\$5,983,575,190

No revision can lessen the tax burden—it can only distribute it equitably; only retrenchment can lessen it.

If the present estimates are correct, the taxes now in force will produce enough revenue to carry on the government and wipe out \$2,500,000,000 of the floating debt by 1923 when refunding operations on a large scale will have to be undertaken. Financiers all agree that it is of the highest importance that this floating debt be not left to embarrass the refunding operations, so that the only hope for lowering taxes during the next three years lies in lowering expenses. The people of the country will cheerfully furnish the money that is necessary to run the government, but will raise a storm of protest against waste and extravagance.

Four general principles should be kept in mind in any discussion of this subject:

1. The measure of ability to pay taxes for the support of the National Government is *net income*, and the

bulk of the taxes should be levied and collected on that basis.

2. The tax should be progressive, that is, the greater the income, the higher the rate.

3. As this is the country of all the people, all the people should have some part in supporting the government, and a certain part of the revenues may justly be raised by means of the tariff and other consumption taxes.

4. While recognizing that the first

consideration in any scheme of taxation is the raising of revenue, its collateral effects must not be lost sight of and, in so far as practicable, the taxes should be so levied as to tend to the distribution of wealth in the hands of the many and not its concentration in the hands of the few.

These four principles are the standards by which to measure the various proposals for revision that are being considered at this time.

1. Net Income Measures Ability to Pay

Taxes can be paid only from two sources: Income and capital. So far as I know, there is no responsible body of public opinion in this country in favor of a levy on capital. The only country in the world that has resorted to that means of securing revenue today is Germany, and she has been driven to it as a last resort.

If then the bulk of the tax is to be derived from net income, it should be determined by reference to the amount of that income, not with reference to

some other factor with no fixed relation to net income, as, for example, gross income. It might be asked: Why then is not all revenue raised by income taxes? The chief reason is that it is not practical to get income tax returns from the great mass of the people with low incomes. It would involve the making of thirty or forty million returns and the checking and handling of them would be out of the question at any reasonable cost.

The consumption taxes are the means adopted for collecting the tax from those of low incomes. They may be looked upon as the base tax spread over all the people; as incomes increase, ability to pay increases, and the income taxes in progressive form are intended to graduate the payments according to ability to pay.

The ideal consumption tax would be one on an article, not a necessity, of universal consumption, one that would carry the tax without shutting off its use. There is no such article, and so a number of articles have been selected that theoretically distribute the burden equitably.

2. Progressive Taxation

A man's ability to pay taxes increases faster than his income. If a man having an income of \$10,000 can justly be required to pay 10 per cent, or \$1,000, a man with an income of \$100,000 can pay more than 10 per cent. The rate should never be so high, however, as to take away from the individual the incentive to earn, or it will automatically defeat the object in view, as it has been abundantly proven that altruism is not a sufficient incentive to cause the human race to put forth its best efforts.

3. How Revenues Should Be Raised

The great problem to be settled by Congress is how much should be raised

by income taxes and how much by consumption taxes. Approximately 5,600,000 people made income tax returns in 1919 with an income of twenty billions. The income of corporations was about \$8,900,000,000. If we add to these the income from tax-free bonds, which practically all went to the same people, we will have, roughly speaking, a total net income of \$30,000,000,000. About 35,000,000 other people in the United States have incomes and it is safe to figure their income at \$30,000,000,000. Then we have two groups of people each with a net income of about \$30,000,000,000: the first group consists of the income taxpayers and their dependents, about 15,000,000, and the second of the balance of the people, 90,000,000. This would make the average income of the first group \$2,000, and of the second group \$333.

If we divide the budget \$5,600,000,-000 by the population 105,000,000 it makes the per capita tax \$50. The practical question now arises: How much of the total budget of \$5,600,-000,000 shall be collected from these average incomes of \$333? My answer is, not to exceed 25 per cent which would be \$12.50 per capita.

At the close of the Civil War approximately 75 per cent of the revenues raised by taxation were raised from consumption taxes and 25 per cent from income taxes. These figures should now be reversed and approximately 75 per cent of the revenues raised from income taxes, and not to exceed 25 per cent from consumption taxes. For the fiscal year 1920, 73.6 per cent of the taxes came from income taxes and 26.4 per cent from consumption and other taxes, so that the present distribution of the tax burden is fair. We must bear in mind that one of the chief differences between income taxes and consumption taxes is that the bulk

of the income tax is paid from income above the living wage, and the bulk of the consumption taxes are paid out of the living wage. These consumption taxes are paid largely out of the living wage by those least able to pay, and often in inverse proportion to their ability, as the larger a man's family, the greater the demand for goods and the less his ability to pay.

4. *Equitable Distribution of Wealth*

This is vital. America has always been regarded as the land of opportunity and nothing should be allowed to creep into our tax system that would place the man of small means or the small corporation at a disadvantage as compared to those of larger capital.

John Hays Hammond recently said: "The best thing that the Government can do is to keep the roads to success open, to see that no one erects barriers on them. And, most particularly, that it does not erect them itself. Most of us ask no more."

So much in general; let us now take up the propositions that have been generally considered in the agitation for a revision of the present tax system.

THE PERSONAL INCOME TAX

All are now familiar with the general provisions of the personal income tax. There is first the exemption of \$1,000 for a single man, \$2,000 for a man and wife and \$200 for each child and then a tax of four per cent up to \$4,000 of net income and eight per cent above \$4,000. This is called the normal tax; to this is added above \$5,000, the surtaxes, increasing one per cent to \$6,000, then increasing one per cent for each \$2,000 of net income up to \$100,000. From \$100,000 to \$150,000 the rate is 52 per cent; from \$150,000 to \$200,000, 56 per cent; from \$200,000 to \$300,000, 60 per cent; from \$300,000 to \$500,000, 63 per cent; from \$500,000

to \$1,000,000, 64 per cent; and above \$1,000,000, 65 per cent.

Incomes above \$1,000,000, therefore, pay a normal tax of eight per cent and surtaxes of 65 per cent, or 73 per cent in all. Experience seems to show that this rate is too high to produce the maximum amount of revenue and that the higher brackets should be reduced. Men of large incomes are avoiding the payment of these higher taxes by investing in tax-free bonds. The income tax returns for 1919, the last year from which figures are available, show 5,600,000 returns with a net income of \$20,000,000,000 and a tax of \$1,350,000,000, or 5.1 per cent.

The rates should be so changed that the maximum tax would not exceed 50 per cent of the net income. This would substantially agree with the practice of both France and England. It is preferable to reducing the tax on saved and reinvested income to a maximum of 20 per cent. One of the reasons for objecting to a maximum tax of 20 per cent on saved and reinvested income is that, if the excess profits tax were abolished and the maximum surtaxes reduced to 20 per cent, it would open a channel whereby the enormous profits of some corporations could be secured by very wealthy men at a relatively low tax rate.

EXCESS PROFITS TAX

It must be borne in mind that corporations are taxed under a different schedule than individuals. The corporation pays a *normal* tax of 10 per cent on net income in excess of certain credits, provided in Section 236, and the excess profits tax.

Under the excess profits tax the corporation has first an allowance of \$3,000 and eight per cent on the invested capital (Sec. 312), then the rate is 20 per cent up to 20 per cent on the invested capital and 40 per cent of the

net income above that figure. This tax produced during the last fiscal year \$1,750,000,000, by far the largest single item. Owing to the unfavorable business outlook, it is estimated that it will produce this year \$900,000,000 of revenue.

There is a very strong movement on foot to repeal the excess profits tax. The chief arguments for the repeal of the tax are:

1. *That it is a heavy burden on business and that it takes from the corporations money needed for dividends and additional capital.*

It is admitted that it is a heavy burden, but the raising of a budget of approximately \$5,600,000,000 is bound to be a heavy burden on someone. Every dollar of the \$1,750,000,000 collected from this source last year came out of profits, and before any of it was levied, the corporations had an allowance of \$3,000 and eight per cent on their invested capital; that the rate above this allowance was 20 per cent up to 20 per cent on invested capital, and that above that 40 per cent. This would seem to allow the corporations sufficient funds for all reasonable requirements of capital and dividends. It is reasonably certain that most farmers would be glad to pay the tax if they could get into the excess profits class.

2. *That the amount of invested capital can not be determined and the law is unworkable.*

The answer is that the law has been in effect since 1917, that whether the law is revised or not, the invested capital will have been determined for most corporations for four years and when once determined the adjustment each year is a comparatively simple matter; unless it can be shown that this tax is based on wrong principles or works injustice, the proper remedy is not its abolition, but the improvement of its administration.

3. *That the amount of revenue from this source is diminishing.*

This might be an argument for increasing the tax, but certainly not for its abolition so long as we need the revenue.

4. *That the tax is passed on in aggravated form to the consumer and adds as much as 23 per cent to the H. C. L.*

Please note that it is the corporations who pay the tax, and not the public, who are asking for its repeal: that is sufficient answer.

Another evidence that the excess profits tax is not destroying business in corporate form is the amount of capital put into new corporations of over \$100,000 capital during the last three years. The figures are as follows: for 1918, \$2,599,000,000; for 1919, \$12,677,000,000; for 1920, \$13,998,000,000; this does not look much as if the public had lost faith in the earning power of corporations even with the excess profits tax.

5. *That it encourages extravagances as part of advertising bills, etc., which would come out of money that would otherwise go to the government.*

The corporation in any case will be spending 50 per cent of its own money and is not likely to go very far strewing the country with its funds. This is one of the arguments put forward by the advertisers: furthermore, the regulations will keep these expenses within bounds.

6. *That it excites hostility because the details of the corporate business have to be set forth.*

This works for good in every way. In many instances the corporation itself gets a lot of valuable facts presented for its enlightenment. It will put a curb on false statements to stockholders and the public and tend to the establishment of sound and adequate methods of accounting.

As a matter of fact the advocates of

repeal of this tax have not made out any case, and when hard pressed take refuge in No. 2 (that the law is unworkable), in face of the fact that it has been in force for four years and that the difficulties involved will grow less each year. They have not presented a single vital reason for its repeal, while there are several fundamental reasons for retaining it. The reasons for retaining the excess profits tax are:

1. *We need the money. This is not questioned.*

2. *It is based on net income—the correct principle—and every dollar collected by this tax comes from profits after liberal allowance has been made for dividends and expansion of capital.*

3. *The tax is progressive and the higher rate—40 per cent—does not apply until after the corporation has 17 per cent on its invested capital.*

If the excess profits tax should be repealed, it would allow corporations making large earnings running up to 200 per cent and over, to escape with paying only the normal tax, an entirely inadequate share of the tax burden; and this is one of the strongest arguments against its repeal.

If it is urged that corporations are owned by individuals who pay surtaxes, the answer is that corporations are artificial persons created by the state, and receive many advantages not enjoyed by the individual; that, in return, the state is justified in taxing them; that, in the case of the railroads, the state has said that they shall not take from the public over six per cent on their invested capital, and that it would be justified in using the excess profits tax to prevent corporations profiteering at the expense of the public. A flat tax encourages profiteering as compared with a progressive tax, because with a flat tax, what they get above the tax they keep, while with a progressive tax, the more they make,

the more the government taxes; and the rates could be so arranged as to be a decided discouragement to excessive profits. It will tend to widen distribution of wealth (*see Principle No. 4*), from the fact that individuals with very large incomes will put their money into tax-free securities of low earning power, rather than in stock paying the excess profits tax, and then themselves pay the surtaxes. Automatically the stocks of corporations with large earning power will fall into the hands of a large number of persons of moderate income, which is just where it will do the most good. While this may not have been one of the controlling reasons for establishing the existing system, it is a very good reason for retaining it.

Another of the collateral effects of the excess profits tax is that in a measure it tends toward equalizing the *net* returns as between those corporations differing in natural advantages as to fuel, raw material, etc.; for example, during the war the government commandeered all the wood chemical plants in the country and *fixed the price* on the product *the same for all factories* without regard to cost of production. This allowed the large factories and those most favorably located to make the most money, but along comes the war profits tax and excess profits tax, and those with large profits have to surrender a goodly portion to the government; and thus things are, to a certain extent, evened up. Today these factories all sell on the open market at practically the same price, and the excess profits tax will help equalize things.

The repeal of this tax involves finding some other source from which an equal amount of revenue can be derived and, so far as my knowledge goes, all the remedies proposed are worse than the disease. An analysis

of all the substitutes shows, invariably, an effort to free incomes of a large part of the burden they are now carrying, and substitute them for consumption taxes, which would be paid largely out of the living wage, and which would then fall on those least able to pay, and in many cases in inverse proportion to the man's ability, as the larger the family, the more demand for goods.

Nothing could be more short-sighted or ill-advised, from the standpoint of the corporations and of capital, than any attempt to relieve the corporations and shoulder the burden off onto the common people through consumption taxes. This would furnish a text from which to preach sermons to which there would be no answer.

THE SALES TAX

The sales tax, as set forth by its friends, is purely a consumption tax. This has been proposed in three forms:

1. *A general turnover tax on all business including personal services and capital assets.*

2. *A tax on goods, wares, and merchandise.*

3. *A tax on retail sales.*

This proposition is fundamentally unsound in all its forms:

If it is not passed on to the ultimate consumer:

1. Because it is founded on the wrong theory (See Principle No. 1). The basis of the tax would be gross income and the tax would have to be paid whether there were any profit in the business or not. In many cases it would be paid out of capital where there is no profit from which to get it. Where there was no profit and where it would not be passed on, it would be a capital levy just as much as the German law, although disguised and under another name.

2. It would give the larger and

stronger concerns enormous advantage, and eventually concentrate the business in each particular line in the hands of a few very powerful concerns. Take the shoe business for example. There is one concern that buys the hides in South America and sells the shoes to the wearer. This concern would have a tax of one per cent on the finished shoes. Take another small concern. The hides are gathered up by a dealer, sold to a tannery, sold to a jobber, to a shoe manufacturer, to a jobber, to a retailer: here the tax would be paid six times, a difference of three per cent in costs will determine who gets the business in shoes. It is readily seen that it would only be a question of time when a few large concerns would control the shoe business. The same thing is true of many other industries.

3. The country would cease to be the land of opportunity and the door would be permanently closed to the great body of the people. This is not a new proposition; it has been tried and abandoned by many countries and today is only resorted to in dire extremity. France has a sales tax because there was no other way, short of a capital levy, to get the money and even in France the people are evading the tax in large part. In January, 1921, this tax produced only one-third the estimates.

If it is passed on to the ultimate consumer:

1. Because it would place an unfair share of the tax burden on those least able to bear it, and it is equally indefensible if not passed on, because the amount of the tax will bear no relation to the amount of profits in the business.

The trouble of administering the excess profits tax for 350,000 corporations, 100,000 of which make no profits, another 100,000 only very small profits, and only 150,000 profits enough to be a

factor, is as nothing compared with checking the infinite number of accounts involved in sales tax schemes. It would be "out of the frying pan into the fire" with a vengeance. One of the requisites of a good tax is ability to check the returns. This could not be done adequately with the enormous number of accounts involved. Only recently a gentleman who has just come back from France stated that while there he purchased 30,000 francs' worth of merchandise, and that he *did not pay any sales tax.*

Consider the farmer. His gross overturn is approximately \$20,000,000,000; a tax of one per cent would be \$250,000,000. We know how much could be added to the price of our grain, or cattle, or dairy products if a gross turnover tax were paid each time the farmer's products changed hands. As much of the farmer's overturn is without profit, this tax on the farmer would have to be paid out of capital.

THE TARIFF

Most people can remember when agriculture received some consideration in framing our tariff laws. Both the manufacturers and labor are interested in agriculture, primarily as a supply of food and raw materials. They wanted them cheap. Practically all the duties were taken off and the farmer left to compete with cheap beans from Manchuria, cheap wool from Australia, and cheap labor the world over, while the factory demanded protection and got it.

The result was that the farmer was left to sell in a free-trade market, and buy in a protected market. He has no protection on wool, but the cloth his coat is made of has a protection of 35 per cent. The dairy farmers have to compete with Canadian milk and cheese, with butter from Denmark, and

with condensed milk from the world. These results have been brought about largely because business and labor are organized and speak with authority, and the farmer has had no organization with sufficient weight and authority to present his side of the argument. The time has come when all genuine farmers' organizations should unite in demanding a square deal and the consideration for agriculture that is befitting the basic industry of the country. A large share of the consumption taxes can appropriately be collected through the tariff, but we should not be so carried away with the idea of a protective tariff as to allow taxes on tea, coffee and sugar, and other articles to be substituted for income taxes. If this is done, the farmer and the wage-earner will pay the bill.

There are many other minor suggestions offered that would make up part of the revenue lost by the repeal of the excess profits tax, such as to increase the normal corporation tax from ten per cent to sixteen per cent and abolish the \$2,000 exemption. This is wrong, primarily because it is a flat tax and bears hardest on those with least incomes. One of the strong points in favor of the progressive taxes is that they help to equalize the final earnings of the strong and weak, and thus prevent monopoly. Other suggestions are the following:

Increase the stamp taxes.

Increase the first-class postal rate to three cents.

Place taxes on tea, coffee, sugar and other items of wide use.

Increase the rates on tobacco, cigarettes and many other non-essentials.

(They should not be substituted for income or the excess profits tax.)

A careful study of the present tax system will be convincing to show that the framers of the present law did a

surprisingly good job, under all the circumstances; and that while it is very easy to abolish the excess profits tax, it is exceedingly hard to find a substitute that is not worse.

I offer the following suggestions:

1. *Reduce the higher surtax brackets on individuals so that the maximum tax does not exceed fifty per cent.*

2. *Revise the administrative features of the excess profits tax and establish local board in each district where at least 90 per cent of all the returns can be checked and passed upon, and only the most complicated sent to Washington. This will be in line with the English method, which works very well.*

3. *Establish a Board of Adjustment*

to which cases can be referred for final settlement.

4. *That the Constitution be amended so that there will be no tax-free securities and all income will be taxed.*

5. *That 75 per cent of the taxes be raised from income taxes and 25 per cent from consumption and other taxes.*

That the present income tax and excess profits tax do not produce sufficient revenue; that the rates be raised sufficiently on individual incomes between \$10,000 and \$50,000 to make up the difference.

6. *The enactment of H. R. 14198.*

7. *That net loss for any year may be deducted from the succeeding year or years.*

The Ralston-Nolan Bill A Proposed Tax on Unimproved Land Values

By S. H. PATTERSON

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"THE tariff a local issue" was made the presidential campaign slogan of a generation ago. The same might be said of taxation. Various individuals are vigorously agitating for the repeal of certain taxes which they find repressive—that is, which hit *them*. They feel that the industrial prosperity of the country will be furthered by other kinds of taxes, the final burden of which seems to lie in another direction. The political atmosphere is full of taxes and rumors of taxes.

On February 7, 1920, Mr. Nolan introduced into the House of Representatives a bill taxing large land values, which was subsequently referred to the Ways and Means Committee. The measure is technically known as House of Representatives Bill No. 12397 or more popularly as the Ralston-Nolan Bill. It proposes to "provide for the raising of public revenues by a

tax upon the privileges of the use and enjoyment of lands of large value." The bill defines land in its true economic sense, that is, including all natural resources and excluding all improvements which represent labor and capital.

That for the purposes of this Act, land is defined to be the surface of the ground, with all easements in, on, and over the same whether covered by water or not, and including water powers and rights, natural growths, if any, of land and including wild forests, natural deposits of coal, minerals of all kinds, oils, gases, peats, waters and all other substances and not including the improvements the result in whole or in part of the application of labor to land.

The rate of taxation is one per cent upon all land values in excess of ten thousand dollars.

That all persons, firms, associations and corporations owning land in excess of ten thousand dollars whether in possession or leased to others shall be subject to an excise tax upon the privilege of the use and enjoyment of such excess at the rate of one per centum. It shall be the duty of every owner where the value of the land itself excluding improvements exceeds ten thousand dollars to report his interests before March the first of each year to the Commissioner of Internal Revenue.

The bill concludes with sections covering the administration and the enforcement of the act.

Let us see what this proposed law would mean. Suppose Mr. Brown owns a farm worth \$35,000. Let us assume his house, barn, shed, fences and other improvements or capital to be worth \$10,000. This would make the value of the land itself \$25,000. As there is an exemption feature of \$10,000 Mr. Brown would have to pay a tax upon \$15,000 worth of unimproved land value. At one per cent his yearly tax bill under this law would be \$150. It must be remembered, however, that this tax is a new federal tax independent of and in addition to the existing local or general property tax, which covers buildings as well as land value.

It is estimated that the Ralston-Nolan Bill will yield an annual revenue of one billion dollars or one-fourth of the total needs.

Mr. W. I. King, in his study of "The Wealth and Income of the People of the United States," attempts an analysis of the distribution of the national income among the factors of production. Because of the anticipated gains from a rise in land value he capitalizes rent at the rather low rate of four per cent. On the basis of figures for 1910 he estimates rent at \$2,673,900,000. Capitalized at his rate, the value of our natural resources for 1910 was \$66,847,500,000. The

Ralston-Nolan Bill proposes a tax of one per cent on land values. This would yield annually in the above figures a little over half a billion dollars. Land values have increased since 1910 but the estimated yield of one billion dollars on the part of the advocates of this bill seems excessive. It represents, moreover, the invasion of a new field by federal taxation. The general property tax in this country is usually regarded as within the sphere of the local governments of the individual states. It required a special amendment to our federal constitution to give Congress the power "to lay and collect taxes on incomes from whatever source derived without apportionment among the several states and without regard to any census or enumeration."

Disregarding the constitutionality of the law, from an economic point of view the differentiation between land itself and the improvements upon it is very important. Unimproved land including all natural resources is a distinct element in production from the improvements upon land which are the result of labor and represent a third element, namely, capital.

This theoretical distinction is beset with certain practical difficulties. Improvements upon land are of such a permanent nature that they tend to become part of the land. Witness the labor expended in clearing or draining a piece of land for farming. Shall we say that a stream is a natural resource but that an irrigation ditch of the same size is capital? How can fertilizer be classified? The practical difficulties of differentiating between land itself and the improvements upon it are very great. City real estate assessors find it difficult to apportion the value of a building between the value of the building itself and the site or land value.

It would seem that the small farmer

would have little to fear. The advocates of the Ralston-Nolan Bill estimate that ninety per cent of the farmers of the country would be untouched. The measure is designed to hit at large holdings of our natural resources which are frequently alleged to be under monopolistic control. It seeks to prevent speculation in land values. The bill makes no distinction between idle land and that in use. Indeed, one of its avowed objects is to tax idle natural resources and productive land held out of cultivation and thus to force it into use. Such a tax would also discourage large holdings in favor of the smaller. Such forms of taxation are not new to the American farmer, nor, as is frequently alleged, is he as hostile to such proposals. The Farmers' National Congress at its annual convention in Indianapolis in October of 1916 adopted the following:

Resolved that this Congress view with alarm the increase in farm tenancy, recommends that the several states adopt a gradual land tax adapted to their peculiar conditions in order to promote more and better farm homes, farm citizenship and country life in general.

The National Grange at its annual convention in Washington endorsed the so-called Crosser Bill, introduced before a former session of Congress with somewhat similar aims. The Farmers' Non-Partisan League of North Dakota, which elected a single-tax governor, had a land value tax in its platform.

There are certain elementary economic principles contained in the Ralston-Nolan Bill which require examination. In the first place a tax on land values is a direct tax. A tax upon economic rent can not be shifted. It is the opinion of most economists that such a tax can not be passed on to the tenant, nor can its final burden rest

upon the consumer in the form of higher food prices. Rent in its economic sense is due to the superior productivity or location of various pieces of land. If one acre of ground equally accessible to markets will produce with the same amount of labor and capital an average yield of ten dollars' worth more of potatoes than another acre of land, it will yield ten dollars more in rent to its owner. If the rents paid for different pieces of land afford an accurate measure of their varying degrees of productivity, the tenant is already paying what the land is worth. He can not and will not pay more rent because of the new tax, provided there is no change in the value of his land due to other economic conditions. A general attempt to shift the tax in the form of higher rents will bring poorer sites and uncultivated land into operation. They tend to fix prices of commodities, for rent due to superior qualities of certain pieces of land is in the nature of a surplus going to the fortunate owners. Unless there is some other economic cause a tax upon land values can not be shifted by the owner to the renter or to the consumer in the form of higher food prices.

If a tax upon land values is permanent it can not be shifted to the next purchaser, because he will discount the value of the property by the value of the tax. Suppose a piece of farm land to be yielding a rent of \$6,000. Capitalized at six per cent, its value would be \$100,000. If a one per cent tax is placed upon it, this would amount to \$1,000 a year. The rent must remain \$6,000, for we have attempted to show that a tax on land value can not raise rent. The yearly income from this piece of land is now only \$5,000 (\$6,000 rent minus \$1,000 tax). Capitalizing his now diminished income of \$5,000 at the same rate of six per cent, the investment value of the same farm

is but \$8,333.33. No future buyer will pay more than that sum because of the new tax. By becoming a silent partner to the extent of one per cent in all the future earnings of the given piece of land, the government at one stroke has taken \$16,666.66 from its investment value.

It may be asked if this does not amount to something like confiscation. The answer depends upon one's theory of taxation. Of these theories there are many, as for example the ability to pay theory, of which the income tax is supposed to be an illustration. Another is the benefit theory by which an individual should contribute in proportion to the benefits he receives. Again, the taxes might be based upon special privileges. Is the ownership of land and other natural resources a special privilege? Single-taxers reaffirm that "the earth is the Lord's and the fulness thereof." They lament the appropriation of large tracts of land and the seizure of especially valuable natural resource by private individuals. The owners should at least contribute in taxes in proportion to their ownership of natural resources, such as land, which rightfully belong to society in general. Thus a tax upon land values is defended by the so-called special privilege theory of taxation. Whether just or unjust, however, society has given its assent for centuries to the private ownership of land. An individual with \$100,000 invested in a piece of unimproved land would find \$16,666.66 sliced off the value of his investment by such a tax on land values as the proposed Ralston-Nolan Bill. A similar sum invested in buildings would not be so much affected by that law.

It must be remembered, however, that there are other laws which have precisely the same effect upon the value of securities. The income tax has sliced similarly the investment

values of stocks and bonds to many individuals. To some owners the surtaxes, by taking a greater proportion of their income, have reduced the investment value of their securities to a far greater extent. Professor Seligman in his "Essays upon Taxation," written some years ago, was inclined to agree to the oft-quoted statement that the farmer was taxed more heavily in proportion to his ability to pay than most other classes. It is doubtful whether this is still true. The war has brought a flood of new taxes, resting more heavily upon other factors in production than upon land. Thus, the excess profits tax, if it is to be permanent and not merely for the period of war-inflated prices and profits, will represent a new burden, just or unjust, upon business enterprise. To prove quantitatively that the owners of natural resources are now less heavily taxed than formerly in comparison with owners of other forms of wealth would reopen the whole problem of the incidence of taxation.

The proof is made more difficult by the overlapping of taxes as in the case of the income and the excess profits tax. Theoretically, the base of the income tax is income and the base of the general property tax is wealth, but naturally income arises from wealth. The problem is still further complicated by the fact that current taxes are based upon not only economic wealth, but upon certificates of ownership or property rights, *e. g.*, bonds, mortgages, etc. Such a solution is made more difficult by the overlapping of federal and state taxation. Many individual states have income taxes. The general property taxes differ in the forty-eight states. The base is both real and personal property, but the frequent evasion of the tax upon personal property represents another difficulty.

The Statistics of Income compiled

from the returns for 1918 under the direction of the Commissioner of Internal Revenue show the following sources of income from personal returns. They may be divided into two groups—personal service and property, roughly representing the distinction between service and funded incomes. The amount of income taxable in the first group was \$12,897,846,-872 or 73 per cent of the total and that in the second was only \$4,847,914,601 or 27 per cent. The conclusion that funded income is paying but a small share must not be arrived at too hastily, for there are many things to be considered as, for illustration, the element of progression. The surtaxes rest especially upon those receiving property incomes. The taxable property income is divided into three divisions as follows: Rents and royalties \$975,679,666 or 5 per cent of the total, interest on bonds and notes \$1,403,485,691 or eight per cent and dividends \$2,468,749,244 or fourteen per cent of the total. As indicated in the last paragraph there are many facts which make us hesitate at the tempting generalization that the owners of natural resources are no longer taxed as heavily in proportion as the owners of other forms of economic wealth and paper certificates of wealth.

The Ralston-Nolan Bill proposes to tax all unimproved land values whether agricultural or not. Our same line of economic reasoning applies to coal and mineral land as well as to farm land. It is the same principle of economic rent—the superior values of different pieces of land whether useful in producing potatoes or coal.

In general, such a tax can not be shifted. Suppose, however, a monopoly exists. Can not the consumer be made to pay a higher price for the product? A monopoly presumes such a control over supply as to permit

price-fixing. A monopoly fixes its price at that point where the profit is greatest. This is frequently but not necessarily a high price. Experience may have shown that a higher price means fewer sales and that higher profits may come with more sales at lower prices. If monopoly exists, a monopoly price should be already fixed at that point at which the profit is the greatest. If such is the case it will be a loss to the monopoly to try to raise the price, for the sales will be decreased and profits will fall off.

Hence, such a tax upon monopoly profits can not be shifted. Moreover a tax upon land values would tend to make it unprofitable to keep productive land idle. By bringing it into use monopoly control might even be broken. An increased supply of products resulting from the use of hitherto uncultivated land would tend to bring down the prices of the products.

The English economist, Mr. J. A. Hobson, in his recent book, *Taxation in the New State*, has recast the whole philosophy of taxation. He tries to analyze more closely the so-called ability to pay. Mr. Hobson would draw a line between costs of production, which are incapable of bearing taxation and surplus wealth, out of which all taxes must eventually come. Under "surplus" wealth he would include among other things excessive or monopoly profits, inherited wealth and economic rent, which we have seen is based upon unimproved land values. A tax which bears upon cost of production is either immediately shifted or else curtails production, raises prices and is finally shifted. Many of our war taxes which bore upon industry hit the cost of production and hence were shifted. The final burden was frequently hard to trace in its devious course, but it sometimes gathered in size like the proverbial snowball. A

tax upon commodities is the classic illustration of an indirect tax shifted to consumers. During the war everything in sight was taxed from silk shirts to spectacles.

Part of agitation today over revision of taxes is due to the failure to study the location of the final burden of the various taxes imposed. The principle of taxation during the war was that of the drunken Irishman at the country fair—"Every time you see a head, hit it." The only defense of such a system is that money was raised in a quick way to help win the war. Now that the conflict is over it is surely time, to paraphrase the words of the walrus, to stop talking in incoherent terms of "ships and shoes and sealing wax, of cabbages and kings." The

entire theory of taxation must be reviewed and some guiding principles adopted. Thus a tax must be proportionate to one's ability to pay and we must know where the final burden rests if we expect to escape the pernicious shifting of taxes.

The Ralston-Nolan Bill will place its burden upon the large holders of land and natural resources. It will be unfair if it taxes one form of wealth, namely land values, out of proportion to other forms of wealth equally capable of bearing taxation. The social effects will be beneficial in so far as speculation in land is discouraged and idle land is brought under cultivation. It may tap monopoly profits, but it is sure in any case to raise an enormous revenue to help defray our war debts.

The Sales Tax

By JOHN S. HORD

Washington, D. C. Formerly Collector of Internal Revenue in the Philippine Islands. President of the Bank of the Philippine Islands. Sometime President of the Manila Merchants Association

THE Secretary of the Treasury has informed Congress that this country's revenue needs are now about four times as great as they were in pre-war times. Four billion dollars will be needed each year for several years to come. Probably less than twenty per cent of this amount can be economically collected as customs duties, and internal taxation must be relied on to produce the remainder.

But, unfortunately, the two main sources, during war times, of internal revenues, excess profits and income taxes, are declining in importance. It is this awkward situation which has brought a discussion of the sales-tax principle to the forefront in this country during the last six months. Some productive, untapped reservoir of reve-

nue must be discovered without delay.

This monograph is being written on the eve of the change in the national administration. For a proper appreciation of the trend of events in the immediate past, affecting the subject matter of this discussion, a review thereof is made as follows:

TAX REVISION PROGRAM OF THE SECRETARY OF THE TREASURY

In his last annual report and in statements made to the Ways and Means Committee and in articles published in leading magazines and newspapers, Secretary Houston and his official spokesmen and tax advisers have made recommendations to the following effect:

- (a) That the rates of the surtaxes on

the higher incomes be reduced and the rates on the lower ones be increased.

(b) That the excess profits tax be repealed.

(c) That certain consumption taxes, which have proved to be uncollectible, be repealed and that a new set of consumption taxes, also at high rates and equally discriminatory, be imposed on still other commodities.

The reaction to these recommendations was immediate. On the floor of the House the leaders of both political parties opposed the Secretary's recommendations, and Chairman Fordney of the Ways and Means Committee expressed the opinion that the income tax returns were "now really a Chinese puzzle." Even ex-Secretary McAdoo—during whose régime the present income taxes were enacted—is quoted in an interview of the *New York Times* as follows:

I am opposed to increased taxes on moderate incomes. Already these incomes are bearing a larger proportion of taxation than is justified. A radical revision of the war income taxes is essential to the prosperity of the country, and in that revision the moderate income taxpayer must have his burdens reduced instead of increased.

A national referendum vote conducted by the United States Chamber of Commerce has just been made public and shows that a majority voted against any increase in income taxes.

EXCESS PROFITS AND INCOME TAX TANGLES

It appears from an official statement by Treasury officials made in February, 1921, that the income tax returns for 1919 and 1920 were practically untouched in the final audit and that taxes amounting to over one billion dollars remained, therefore, uncollected.

Referring to a hearing held by the

Ways and Means Committee on December 14, one newspaper says:

Methods of raising sufficient revenues to offset losses through the prospective repeal of the excess profits tax were considered today by the House Ways and Means Committee, as the second step toward tax revision.

The day's hearings brought from the Treasury an estimate that "more than a billion dollars" were outstanding in uncollected taxes, most of which, the Treasury spokesman said, was traceable to inability to audit thousands of corporation returns. He said the revenue bureau had not yet certified the work of auditing returns for the year 1917 because of the gigantic administrative burden of tax collection.

Another newspaper reported the Ways and Means Committee hearing as follows:

Because of the complex nature of present revenue laws, Dr. Adams, of the Treasury staff, said the internal revenue bureau has been unable to complete the checking up of tax returns for 1917. He saw no immediate hope of making the audit current with the tax returns filed.

The task of auditing the tax returns and of tracing evasion and other causes of failure to pay all taxes due, Dr. Adams said, has become so stupendous that the internal revenue bureau sees no way out. Dr. Adams urged the committee to simplify the tax laws for two reasons: first, because such simplification would insure a greater and more thorough collection, and, second, because it would make the administrative work easier and more efficient.

Referring to the complexity in the present tax laws and the urgent need for simplification, Secretary Houston said in his last annual report:

Complexity in tax laws violates the most fundamental canon of taxation—that the liability shall be certain and definite . . . At present the taxpayer never knows when he is through.

Mr. Otto H. Kahn of Kahn, Loeb and Company, gives some very prac-

tical and pertinent advice in this connection, which was published very widely during last October. He says:

One of the essentials of wise taxation is simplicity of method. Nothing tends more to create a sullen animosity against fiscal measures, nothing is more apt to cause a man to feel justified in his own conscience to give himself the benefit of any doubt or technical loophole, than to be compelled, in addition to paying heavy taxes, to sit down and grapple with complicated tax forms and intricate schedules or to spend money for the employment of lawyers and accountants to tell him what he has to pay.

Resident American merchants living abroad in Europe, Asia and South America, find it hard to believe that the income tax provisions of this country have been properly interpreted. They are coming here to see about it. Representatives from the Philippines have already arrived in this country. The following quotation is from a news item in a daily published in Washington:

American business men from thirty-five foreign countries have been invited by the National Foreign Trade Council to present, during the eighth national foreign trade convention, their views on the taxation of American citizens living abroad. This important meeting will be held in Cleveland, Ohio, May 4-5-6-7, 1921.

Serious efforts are already being made by the American Chamber of Commerce of Rio, Buenos Ayres, Mexico City, Shanghai, London, Sao Paulo and Barcelona to obtain from Congress the elimination of American taxes now levied on the income received by Americans living abroad and derived from foreign sources.

This taxation has put American foreign traders at a great disadvantage in competition with their foreign rivals, who pay no taxes to their home governments on income derived from foreign sources.

In the Philippines, for instance, an American conducting a business in the city of Manila and realizing a net profit of

\$50,000 therefrom, pays a combined Philippine and United States income tax of \$9,190. A Filipino, Britisher, Spaniard, Chinaman, Japanese or citizen of any country except the United States, conducting a like business and earning a like profit, pays only the Philippine tax which amounts to \$2,535. In other words, the American merchant would have to pay \$6,655 more than his foreign competitors. Should the net income be \$100,000, then the margin against the American merchant is \$24,205.

It is evident that to the extent of his advantage in income tax, the foreigner can undersell and overbid the American, or can use the amount in advertising or in otherwise pushing his wares.

The Business Men's National Tax Committee of New York City has printed for circulation a statement by Mr. Martin R. Bourne, Vice President of the Manila Trading and Supply Company. The following are excerpts from Mr. Bourne's statement:

I know something about American taxes because Americans in the Philippines have their own federal tax troubles and are just now in an even worse situation than their fellow citizens here. The surtaxes on their business profits can not be passed to the consumer, as is done here, because our non-American competitors not being subject to the tax make it impossible. American citizenship comes very high in the Orient where our competitors, brown and white, pay no income tax. . . . We are hoping that the next Congress will not only give us relief from future American taxes, but return us what it has taken so unjustly and we need so greatly to protect our competitive position in the Orient. . . . I think we should all pay on our incomes from secure investments, and I like the idea of limiting the surtaxes to an amount based on a secure six per cent return from the tax payer's capital. . . . Such an income tax, supplemented by a sales tax such as we have in the Philippines, should give Uncle Sam more money than he can spend wisely. In fact, in the long run, it will give him all the money he can get, because it is very evident that what he is trying to get now is

rapidly destroying the source from which it is sought.

At a hearing before the Ways and Means Committee, on December 13, the spokesman for the Secretary of the Treasury said that the excess profits was fast reaching a point where its yield would be reduced greatly. He is quoted in the press as stating:

Unless the administrative burden of the excess profits is reduced the administrative machinery will break down.

Referring to the income tax this spokesman told the Committee that the present rates on high incomes were "merciless," and said they must be made "reasonable, moderate and bearable," and that "as a friend of the income tax I say we must reduce it or it is going to go. I have always been resolutely opposed to the high rates which are certain to break the back of the income and surtaxes."

In the course of a recent address, former Commissioner of Internal Revenue Roper said:

It seems that the excess profits tax must go. It is now practically without friends. It is inequitable and complicated. Furthermore, Congress will soon discover that it will no longer yield the revenue which it was designed to produce.

It was during Mr. Roper's régime as Commissioner of Internal Revenue under former Secretary of the Treasury McAdoo that the excess profits tax was enacted. Surely Mr. Roper should know its faults.

A former counsel for the Collector of Internal Revenue in New York City said at a recent conference of the State Bankers Association at the University of Iowa:

In addition to being beset with barnacles of the past and burdened with the responsibility for the enforcement of reform measures, the bureau (of internal revenue) has

had to administer, in the excess profits tax, the most complicated tax ever devised by the brain of man.

Chairman Good of the House Committee on Appropriations is quoted in the daily press a few days ago as saying:

Unquestionably the excess profits tax is in a large measure passed on to the consumer and is one of the elements that have tended to keep living costs excessively high.

Returns from a nation-wide referendum, conducted by the United States Chamber of Commerce have just been received. It appears that a practically unanimous demand is made by the chamber's membership for the repeal of the excess profits tax. A statement issued by the chamber says:

The vote makes it clear that business men are united in their view that the excess profits tax hampers business operations and retards the progress of readjustment.

On December 27, Secretary Houston is quoted by the daily press as having stated at a hearing before the Senate Finance Committee:

The excess profits tax should be replaced, primarily because it is losing its productivity, and promises in the near future to become a statute of exemptions rather than an effective tax. Moreover, the tax is so complicated that it imposes upon both taxpayers and administrative authorities burdens too difficult to be permanently carried.

Mr. Otto H. Kahn clears away some popular misunderstandings as to the operations and final incidence of the excess profits tax in the following excerpts from an article published under his name last October:

The excess profits tax has tended furthermore to increase actual cost of production, inasmuch as costs naturally are deducted before taxable profits are arrived at, and, therefore, under the operation of the excess

profit tax there is not the same inducement as under normal circumstances to keep cost down as much as possible, but in fact rather the reverse. It is a fact well known to those familiar with business practices that there has been gross wastefulness in certain lines of expenditures since the excess profit tax went into effect and as a direct consequence of it.

The conditions I have sketched lead inevitably to the conclusion that a continuance of the present system of taxation will not yield sufficient revenue for the needs of the Government. Not only is the excess profits tax so complicated and so open to different constructions that taxpayers can scarcely be blamed for giving themselves the benefit of the doubt and making their initial tax payments often less than they should be, but, because of the delay in auditing their returns, a delay forever growing longer, much of the tax that is actually due for any year can not be discovered and collected until years after.

And in order not to leave his good work half finished, Mr. Kahn, in the following words, completely exposes a certain widespread fallacy to the effect that the higher income surtaxes and the excess profits tax favor the poor man by taxing his rich neighbor:

By taking a little thought a millionaire may today pay less tax than the man who earns \$5,000 or \$10,000 a year by the sweat of his brow. So I say the country can not prosper, it can scarcely live, under such conditions. . . .

Even those of us who might like to see the rich pay all the taxes must admit that the present system does not achieve their ends. Let no one delude himself with the notion that because the present tax laws appear to tax large incomes the rich are in the final analysis paying the taxes. . . .

To those who take the view that criticism of our existing surtax schedule is necessarily the "squeal" of a rich man, I would point out that the rich man, considered merely as such, has little to squeal about on the score of the income tax, for all he needs to do is to invest his available capital in tax-exempt securities—bonds of States

and their subdivisions, of which vast amounts are offered for his choice, and then all income or excess profit taxation ceases to trouble him. By so doing he may obtain a considerably greater yield than he could hope for by investing his money in taxable securities or in his business, subject to the present scale of surtaxes.

No one will dispute the validity of the testimony as to the defects discovered by Secretary Houston and former Commissioner Roper in the provisions and operation of the excess profits tax law; all will accept their criticism as being the evidence of experts. And equal credence will for the same reason be given to Mr. Kahn's testimony regarding the manner in which the law allows the rich man to spend or save his income and profits.

TAX-COMPLEXITY EXPERTS

The army of "tax experts," "income specialists," "tax trained accountants and auditors," etc., which during the last few years has invaded this country from coast to coast, are the legitimate offspring of the complexities, ambiguities and actual contradictions of the provisions of the excess profits and income tax laws, and of the rulings, interpretations and regulations administratively provided for the enforcement of the said laws.

The fees charged by these tax-complexity experts are by no means modest. Were the provisions of the tax laws simple and understandable, this new profession would not be so popular as a vocation. Therefore, as a direct result of the law's complexity, tax payers are forced to pay these tax-complexity experts substantial sums which are in the nature of tax surcharges but which never reach the Treasury vaults.

The spokesman for the Secretary of the Treasury told the Ways and Means Committee on December 14, that:

The turnover in our high grade tax experts is enormous. It amounts to over a hundred per cent a year. . . . Men come in, become expert, and leave for private fields where they make much more money.

On January 18, he is quoted as having stated in effect to a group of bankers and merchants at Cleveland that the taxes must be simplified or better salaries paid to the government tax experts in order to prevent their quitting the service and disrupting the tax administration. Secretary Houston told the Senate Finance Committee on December 27 that tax experts earning annually \$5,000 salaries in the Bureau of Internal Revenue were bid away by taxpayers at higher salaries, in some cases as high as \$100,000.

Viewed practically, all these complications and the sinful loss of time and money by tax collectors and taxpayers seem unnecessary. Had simple, understandable laws been enacted in the first place, the taxpayers would not now be forced to pay surtaxes into the pockets of these tax-complexity experts, and the tax administrators would now find their personnel satisfied as to compensation, and sufficient in number to keep their assessment, collection and audit work up to date.

As it is, the audit of returns is from two to three years in arrears, and between one and two billion dollars representing accrued taxes, remain uncollected. What portion of this money will never be collected? Can anyone doubt that a substantial portion of this total is due by concerns that have either already gone out of business or will do so before collection day—following the long deferred audits—comes around? In what frame of mind will this leave the men who have paid their taxes?

Unquestionably there has been too much striving, in theory, after absolutely equal justice to each and all;

too much show of intellectual dexterity as the cardinal virtue in law making; too much interweaving and thread-tying; and also too little regard for the familiar advice of Adam Smith that "the certainty of what each individual ought to pay is in taxation of so great importance that a very considerable degree of inequality is not near so great an evil as a small degree of uncertainty."

UNITED STATES SALES TAXES

Those who have read objections by opponents to the introduction here of a flat one per cent tax rate on all sales (such as has been in successful operation in the Philippines for over sixteen years) would naturally suppose that sales taxes are unknown in this country. They are, however, very much mistaken. The existing internal revenue law of this country imposes excise, or luxury, or consumption taxes, as they are variously called, on the *sale* of a long list of articles beginning with ice cream sodas, continuing with carpets and umbrellas and ending with neckties and pajamas. The tax rates range in amount anywhere from 3 per cent *ad valorem* up. In addition, there is a widely assorted list of specific rates which no storekeeper would ever live long enough to memorize. These taxes are frankly discriminatory. Certain articles are taxed at say 10 per cent or at other high rates, while other articles not identical but similar enough to be competitive are taxed at lower rates or are not taxed at all. These various taxes were evidently imposed in a hit-or-miss sort of way, as no consistent theory in their application is discernible.

A former counsel for the Collector of Internal Revenue in New York City said recently in the course of an address before the Bankers Association at the University of Iowa:

Aside from the practical difficulties of administration which loom large in my mind, because I have had some experience with them, the existing and proposed sales taxes on the articles enumerated are monstrously unequal and inequitable.

If the intention of the framers of the regulations for enforcing payment of these taxes had been not to allow the taxpayer to forget them they certainly succeeded admirably, because the reminders are ubiquitous and omnipresent. On a sultry afternoon a business man before going home takes a cooling drink at a soda fountain, and a little machine passes out a slip with "Tax 1 cent" on it. He takes his wife to the movies and purchases their tickets according to the "tax included" sign above the teller's window. They stop at the drug store on their way home and the druggist attaches a "tax paid" stamp to their purchase. When they get home the wife reads the advertisements in the evening paper and finds a bargain. She reads it aloud,—"Beaded bags, greatly reduced—\$11.95, tax additional."

The writer saw a notice on 10th Street, in Washington, in front of an old style house stating that a large collection of articles formerly belonging to a Civil Wartime president were on exhibition. Beside it was the following sign, "Admittance 27 cents. War tax 3 cents—Total 30 cents." And in the same neighborhood was a milliner's show window where, amidst a garden of hats and shirtwaists, a card informed the passers-by, "Miss So-and-So, Income Tax Expert."

It is some of these arbitrary, discriminatory consumption or sales taxes on certain goods that the Secretary of the Treasury asks, in his last report, that Congress repeal on the ground that they are "ill-defined, uncertain, vexatious and widely evaded," and that "such evasion cannot be stopped"

without incurring expenses greater than the tax collections would justify.

Unfortunately, the Secretary advises simultaneously the imposition of other discriminatory taxes, also at stiff rates, on such necessities as sugar and tea. It is not to be expected that a dealer in tea and sugar will go on good-naturedly paying a high tax on his goods while his neighbor and competitor, say in coffee and molasses, across the street, pays no tax at all. It will not work. It might work if his store, and thousands of others like his, could be put in charge of gaugers, watchmen and inspectors, as distilleries and tobacco factories are, and no non-tax paid sugar or tea or other goods be allowed to leave the premises. But that is, of course, impossible. It would cost more than the taxes collected would amount to.

Now if the sales tax applied uniformly to all goods, wares and merchandise sold by all merchants or manufacturers, then the tax rate could be made so low that there would be little temptation to defraud the revenues. At least that has been the experience with the Philippines sales tax law during the last sixteen years, where there are no discriminatory taxes on sales, where all pay cheerfully and where attempts at fraud are a rarity.

But so long as there are discriminatory sales taxes on general commodities, and at high rates imposed in this country, just so long will the Secretary of the Treasury be periodically requesting Congress to repeal certain sales taxes on the ground that they are "ill-defined, uncertain, vexatious and widely evaded," and that "such evasion cannot be stopped."

Thousands of newspaper columns are at this writing being filled with advice to taxpayers of all kinds. Many of these items are quite amusing. One such is quoted below. A dealer in

automobile parts had asked the National Automobile Association to enlighten him as to the proper assessment, for tax purposes, of his sales. Part of the advice given him reads as follows:

There is no criminality, however, in overcollecting the tax, provided it is based on average figures and provided further that all of the tax collected is returned. The net result is that you average these taxes at your peril and if your ratio changes so that the Government does not receive the full tax you will be held for it, while if you overcollect it the Government will take it all.

At a hearing before the Ways and Means Committee the spokesman for the Secretary of the Treasury said, "We are having a perfectly enormous amount of evasion in the collection of the sales taxes now in effect." And later he stated that the introduction in this country of a sales tax similar to that in the Philippines would involve extending the administrative machinery to millions of additional taxpayers and would break it down. Evidently the Secretary's representative knows a lot about his own law and very little about that of the Philippines.

OTHER UNITED STATES LAWS IMPOSING TAXES ON SALES AND PERSONAL PROPERTY

It is amusing to read the indignant remarks of the opponents to the introduction here of a one per cent per turnover sales tax and of its iniquitous, cumulative effects,—opponents who nevertheless nimbly recommend the continuance here of their own high rate sales tax law, described above. This they propose to do by simply switching the incidence of the taxes from commodities which have heretofore evaded them to a new line of commodities which promise to prove equally fickle.

But the most inexplicable oversight

on the part of the opponents of the sales tax principle is their failure, so far, to recognize the fact that both the federal and local revenues of this country have in the past been derived mainly from indirect consumption taxes paid on every day commodities sold in this country. This was especially true up to the year 1914 when customs duties and internal revenues supplied about 90 per cent of the Federal Government's needs. Due to prohibition and the enactment of large war taxes the proportion of these taxes to the total is less than it was. But it is still important.

Customs duties collected on imports from abroad are on an average at very high tax rates when compared with the one per cent rate of the proposed sales tax. It is true that the sales tax normally accumulates from two to four times on its way to the ultimate consumer but even then the increase in price to the ultimate consumer will normally range between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. That is, after the manufacturer, wholesaler and retailer have all added their profits on the original price of the goods plus their profits on the profits of the merchant or merchants who handled the goods before them. Even then the ultimate consumer will, because of the one per cent sales tax, only pay the retailer from whom he buys from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent more than he would if the sales tax was abolished.

Now compare this with the duty paid by the importer at the customs house, say 15 per cent, although the import duties on many articles are as a rule very much higher. This 15 per cent the importer adds to the cost of the goods, and on the total thus obtained he estimates and adds his percentage of profit. The wholesaler and retailer of these imported goods each do likewise, and when the consumer finally takes the goods he pays, to-

gether with the original price when landed in the United States, three profits on the original price, by importer, wholesaler and retailer respectively. He also pays the original 15 per cent customs duties which go into the Treasury vaults, and in addition pays three profits on the original duties, which are in the nature of surtaxes but which remain in the pockets of the importer, wholesaler and retailer, respectively.

So far as the government is concerned it must be satisfied with the original 15 per cent duties paid at the port of entry. There are no further turnover customs duties to go to the government. But this 15 per cent means several times as much as a sales tax with three or four turnovers at a 1 per cent tax per turnover.

So far as the ultimate consumer is concerned the manner of the accumulation on the original duty would follow the same course as do the various turnovers on the original sales tax such as exists in the Philippines. But due to the fact that the customs duty paid is greater than the 1 per cent rate of the sales tax the amount finally accumulated is correspondingly increased.

As regards the internal revenue taxes on tobacco products, beverages, etc., the same procedure follows as is described above in the case of imports. The original tax rates are much higher than the 1 per cent sales tax rate and accumulate much more heavily. The manufacturer of tobacco products, etc. pays the original high internal revenue tax just as the importer pays the original high customs duty. After that, the procedure through the dealers to the ultimate consumer is the same in both cases.

In this country most states, counties and cities impose flat *ad valorem* taxes, usually 1 per cent or more, on personal property. These taxes are

collected periodically on the assessed value of all personal property including stocks of goods on wholesalers and retailers shelves and in their warehouses. The tax is assessed on the value of the same articles as is the sales tax, *i.e.*, goods, wares and merchandize. It is collected by the same man, *i.e.*, the storekeeper. It is finally paid by the same man, *i.e.*, the ultimate consumer. It is imposed at approximately the same rate, *i.e.*, 1 per cent. All of which would seem to prove that the personal property tax on goods, wares and merchandize in this country and the much disputed sales tax in the Philippines are laws which are well nigh identical in amount, manner of assessment and collection, and final incidence.

But there is a vital difference between the two systems:—The sales tax in the Philippines accrues on goods which have left the merchant's shelves; that is, when he has sold them and is therefore best able to pay the taxes on them. The personal property tax in this country accrues, periodically, on the goods which remain on the merchant's shelves; and if they remain unsold a sufficient length of time the next assessment period rolls around and the merchant pays a second tax on the same goods.

The opponents to the sales tax have asserted that its introduction here would disrupt business and produce a diversity of dire calamities. If such a result is inevitable because of a tax law which makes it easy for the merchant to pay his taxes by collecting them when he is flush, what then should logically have been happening to business in this country during the past years under a law, such as the American personal property tax, which forces the merchant to pay his taxes on unsold goods,—when his shelves are full and his cash till probably empty?

Yet notwithstanding these object lessons at home an unreasoning fear against sales taxes seems to persist in the minds of many in this country. Nearly a year ago the Secretary of the Treasury wrote a letter to Chairman Fordney of the Ways and Means Committee informing him that there are "grave objections" to a "sales tax which I understand your Committee is considering."

ATTEMPTS TO REHABILITATE THE PRESENT LAWS

The Secretary of the Treasury recommended to Congress the regrading of rates and a general revamping of the present tax laws. The main trouble appeared to be the very natural tendency of the wealthy to invest their incomes and profits in tax exempt securities.

Congressman McFadden, as a remedy to this oversight on the part of the original framers of the tax laws, proposed an amendment to the United States Constitution making all such securities subject to federal taxation. This remedy, however, involved such a long wait while the various states acted, that the patient would probably not survive the delay. Nothing more has been heard of the proposed amendment.

In order to supplement the failing revenues, Representative Treadway proposed a tax of one-fourth of 1 per cent on bank deposits, which he believed would produce one billion dollars annually. Nothing further has been made public as to the fate of this bill. Possibly it will be decided that this proposed remedy, economically considered, is worse than the disease it is intended to cure.

Other remedial legislation was suggested and dropped. Congress seemed unwilling to merely revamp a number of discredited laws, and send them

again to sea in a patched-up condition. Treasury officials had made no secret of the fact that for a long time the tax machinery had been gradually slipping. Now evidently it had finally slipped!

At this stage the chairman of the Senate Finance Committee issued a warning and a call to duty to the American people in the following words:

We are facing the biggest problem ever faced by any country. It is going to tax the ingenuity of experts, and it requires the help of legislators, the government and the business community to equip America with proper revenues.

SALES TAX INDORSED IN THE HOUSE OF ITS ENEMIES

Mr. Alfred Reeves, General Manager of the National Automobile Chamber of Commerce, surprised the anti-sales tax proceedings of the National Industrial Tax Conference, in New York City, by stating that:

No person and no government has a right to so pile taxes on any one industry as to jeopardize its very existence. . . . We hear occasionally that it would be difficult to impose a sales tax. It is worth noting that a sales tax has been imposed on the automobile industry for the past two years, and there has been no difficulty about collecting it. Before there is any doubling up on the taxes on the industries now paying a sales tax it has occurred to our people that it might be well to have some other industries join with us.

"WAR ON SALES TAX"

On February 18 a news item from Chicago reading as follows was widely published:

URGES WAR ON SALES TAX—*Revenue Official Tells Business to Unite against Proposed Levy.* Chicago, Feb. 17.—Business men were urged to unite in opposition to the proposed sales tax by Dr. Thomas S. Adams, chairman of the advisory board, Bureau of Internal Revenue, and special adviser to the United States

Treasury Department, in an address tonight.

"It is time that the business man, the consumer and all those who desire economy in public expenditures, should arouse themselves to the menace in the propaganda now being conducted in behalf of the sales or turnover tax," Dr. Adams said.

Some days earlier Dr. Adams stated at a taxation discussion at the National Republican Club in New York City, that he felt as a "lifelong Republican" he had the right to protest against the support given by a small faction of the Republican Party to the sales tax, the effects of which would be:

To bring about great combinations and make terrific political problems. Such taxation in its results does tend to separate the classes, and it is going to be increasingly difficult in the coming years to prevent class warfare.

Editorially the *New York Times* refers to these and similar unnecessary alarms under the title "Sales Tax Ghosts."

INTEREST IN AND ENDORSEMENT OF THE SALES TAX

The Review of Reviews (February) says:

The country which we can study with the greatest profit and from which we can most easily obtain information is the Philippine Archipelago, where a sales tax has been in operation continuously since 1905.

The sales tax has been publicly endorsed by a number of chambers of commerce, industrial and commercial associations and by many prominent men including Mr. Edison.

The Government of the Philippine Islands has informed the Secretary of the Treasury in Washington that the sales tax law over there has during the last sixteen years proved to be the most productive, accurate, satisfactory and equitable tax they have; that its ad-

ministration was not expensive and that it produced no public complaint.

Mr. Martin R. Bourne, Vice President of the Manila Trading and Supply Company, with offices in the Philippines and New York City, says in a statement printed and circulated by the Business Men's National Tax Committee of New York City:

I am very glad to give testimony in favor of the sales tax as the simplest and most efficient form of business tax. . . . I know that I express the unanimous sentiment of both citizens and officials in the Philippines. My enthusiasm is theirs. . . . Possibly its greatest single advantage from the merchant's viewpoint is its certainty and simplicity. It involves no guess-work. He does not have to figure in graduated percentages to know what amount of price-loading is necessary to cover the tax. He does not have to wait a year to know the amount of his tax. At the close of every business day we know our tax for the day's business. We pay it quarterly. We also feel that we are mere collectors. The tax is a recognized cost item which is figured in the selling price. . . . The tax is tremendously popular with all and so far as I have ever heard has never been criticized either by the merchant or the consumer. The Philippine government has found it a great success both in the revenue produced and also in its effective collection. One never hears of any effort at evasion. In a sense it both collects and pays itself. No one feels that the government is taking anything from him. He is simply collecting for the government. If he failed to account and pay over the tax it would seem more like theft than ordinary tax avoidance. Unlike profits taxes in the United States the Philippine Sales Tax makes for conservation and certainty in figuring profits and selling prices and leaves nothing to the future to embarrass credits and endanger solvency. . . . We will gladly share with you the benefits of wise revenue legislation in the form of the sales tax which we have received from wise American administrators. This is the only tax which should rest directly on business.

That tax collectors and taxpayers should share each other's enthusiasm over a tax law which also produces ample revenue, seems too good to be true. How different from the situation in this country where tax collectors and taxpayers abuse the tax law all day and then take turns sitting up at night and denouncing it further. And now it is about to lose even its right to be called a revenue producer because it threatens to stop producing.

In a report to the Republican National Committee the Hon. Ogden L. Mills, Chairman of the Advisory Committee on Platform and Policies, refers to the Philippines Sales Tax as being "in successful operation" and recommends:

Other things being equal, it would be desirable in this country to test, by actual practice, side by side, the comparative virtues of the sales tax and the income tax. . . . It would be, if not easy and simple of operation, at least more simple and certain than the income and profits tax.

Mr. Mills' recommendation is most practical; there is nothing the advocates of the sales tax principle would welcome more than a thorough investigation of the merits of the Philippine Sales Tax through a practical test such as Mr. Mills recommends. This would settle for all time the much debated question as to the applicability of the sales tax system to the commercial and industrial conditions obtaining in this country.

Mr. Mills' comparison of the Philippine Sales Tax and the income tax of this country is also most logical. There is a strong resemblance between the incidence of the two taxes. The sales tax also comes out of the ultimate consumers income. The main difference is that here the tax falls on the net income and in the Philippines on the gross income.

In this country the taxpayer in order to arrive at his taxable income is allowed to make deductions such as the salary due by a farmer to a woman worker while milking cows but not while the same woman was doing house work, etc. There is a large assortment of ingenious administrative provisions of this type which really amount to law-making by tax officials. One income taxpayer complains that he is obliged to make eighty-six reports to federal and state collectors of income taxes, and that recent laws will add twenty-three more.

In the Philippines each taxpayer grades his own income tax when he buys things to eat and wear. He increases or decreases his tax at will, (within reasonable limits) and has no reports whatever to make. The amount of his income (or sales) tax varies in amount according to his ability and willingness to pay. He pays it as he goes along and does not feel its effects. Whereas in this country today, (especially since the commercial depression began) there are hundreds of thousands of taxpayers who now, when their salaries and incomes have been reduced, are called on to pay taxes on the much higher salaries or incomes they enjoyed last year when the taxes accrued but were not paid.

THE PHILIPPINES SALES TAX

The writer of this monograph was asked over sixteen years ago by Governor General Taft and Secretary of Finance and Justice Ide, of the Philippines, to submit a draft of a tax on general business in the Islands. This was done and sent to the Philippine Commission for legislative action with a letter of transmittal from which the following excerpt is taken:

The system of taxation proposed in the inclosed draft may be described as an in-

direct tax on certain personal property collected at the time of change of ownership.

. . . Whether or not there is any absolutely certain, complete and equitable method devisable for the assessment of personal property will probably forever remain an unsolved problem. I submit the inclosed draft of law because I believe it will eliminate most of the objectionable features of the existing law, establish a more uniform rule of taxation, and will put merchants and manufacturers on an even footing in so far as such equal rights and opportunities can be secured by legislative enactment.

Tax Provisions. The Philippine law as finally enacted provided a tax of 1 per cent on every turnover of goods, wares or merchandise, whether by manufacturer, wholesaler or retailer, which accrued at the time of change of ownership of the goods, and whether the sale was made on a cash, credit or installment basis. Farmers, small boothkeepers, peddlers and others subject to license taxes, were exempted. Services, real estate and capital stock sales were not included, some of these being considered properly exempt, and others as taxed in other ways. Transfers of stock, bonds, etc. were variously reached in the documentary tax schedules, and brokers, etc. were subject to specific license taxes. The Sales Tax was made exclusively applicable to goods, wares and merchandise which changed ownership within the Philippine Islands.

Assessment and collection. Each merchant and manufacturer was registered each year and was furnished a license form with four columns and four coupons, one of each for each quarter. At the end of each quarter he totaled up his sales in a book which, even before the tax was imposed, he kept for that purpose. The only additional work which the Sales Tax Law imposed on him was to make him move the decimal point in his total sales two columns to

the left (at a 1 per cent rate), tear from his license the coupon for the proper quarter, enter thereon the tax due, send it with the necessary funds to the local tax collector, get the serially numbered stamps and glue them to the license on the wall of his store in the column for the quarter just expired. No receipts were ever issued for tax payments—the serial numbers on the stamps spoke for themselves and were sufficient to identify the individual payments. All that the merchant or manufacturer had to see to was that he did not lose the license form with the attached stamps.

Simplicity of provisions. The provisions of law just recited are about all that are essential in the Philippine Sales Tax. They all relate to fundamental facts which hold good in all parts of the world where goods, wares or merchandise change hands. Canada, Mexico and France have successful sales tax laws with provisions equally simple and understandable. Why would not such a tax law work here? The answer is that a uniform tax law with simple, understandable provisions would work here, just as such laws are successfully functioning in the countries I have enumerated.

TAXATION OF SELF CONTAINED INDUSTRIES

Opponents of the sales tax principle have insisted that it would be inapplicable to this country because of the existence here of large self-contained industrial manufacturing concerns, which supposedly would pay the sales tax only once, whereas their functioning from raw material to finished product involves several distinct processes. The argument lies in the claim that the small manufacturer would have to pay the sales tax several times to turn out the same finished products, i.e., an

additional tax for each change in form of the article manufactured.

The answer to this objection is quite easy: Collect the tax from the large integrated concern as many times as there are processes between the raw material and the finished product. Whether or not this would be a throw-back on the economic history of civilization during several generations, whether or not this would be an attempt, in a tax law, to penalize efficiency, are questions for the lawmakers to decide on grounds of public policy.

Modern machinery and methods began over two hundred years ago to furnish more goods, better goods and cheaper goods to consumers the world over. Surely any attempt at this time, by means of a few 1 per cent taxes, to force a resumption of the crude, expensive methods of yesterday, would prove but a silly gesture.¹

RECOMMENDATIONS

Investigations made by Professor Irving Fisher, by Mr. Joseph McCoy, Actuary of the Treasury Department, and others, as to the potential annual productivity of a sales tax in this country at a 1 per cent rate per turnover, give widely divergent results. The amounts range all the way from under two billion to over five billion dollars. If an average of the varying estimates be taken the amount is still sufficient to meet the extraordinary revenue needs of this country.

In this estimate it is assumed that customs duties and internal excise taxes on such old, tried and true articles as tobacco products, etc., will to-

¹ Further information regarding the Philippines Sales Tax will be found in the Report of the Philippine Commission to the Secretary of War for 1905. Also in an article, prepared by the writer hereof, entitled "Internal Taxation in the Philippine Islands," and published by the Johns Hopkins Press in January 1907.

gether produce one billion. This would leave approximately three billion more to come from a sales tax, from a reasonable flat rate income tax and from all minor sources, *not*, of course, including excess profits, income surtaxes and the present discriminatory luxury or consumption taxes, all of which should be repealed with as little delay as possible.

Taxation has not yet been placed in the category of exact sciences. Whatever system is adopted is bound to meet with just criticism. But if the text of the new law is free from complexities, certainty of assessment and collection will follow, and the nearest possible measure of justice will be secured to all taxpayers.

The advocates of such modification of the present taxes as will give them a new lease of life, may be divided into three groups, thus:

Group 1. Academicians and official tax advisers, experts, etc. This group represents pride of authorship. Their mental attitude is quite understandable. They no doubt act in perfect good faith but their intellectual dexterity is such that they have succeeded in convincing themselves that their position is irrevocably right.

Group 2. The tax-complexity-experts. The monetary attitude of this group is also clear. They have fattened on the weaving, interweaving and thread-tying dexterity of those included in Group 1.

Group 3. The men of moderate means who were led to believe that their taxes would be shifted to the shoulders of their well-to-do neighbors. Their position is pathetic. Their eyes have been opened at the eleventh hour to the fact that an exit marked "Tax Exempt Securities," on the working plan of Group 1, escaped attention when the tax scheme was originally prepared. The number in this group is fast dwindling.

Soon they will all have passed over to a new group embracing all taxpayers in this country, whose ambition will be to really pay taxes and be taxpayers

in something more than the name; who will hold no longer to the hope of becoming parasites on the body politic. And this new group will recognize in the repeal of the excess profits and in-

come surtaxes and in the enactment of a simple, sane and just sales tax law the opportunity for each and all to bear their full share of the national tax burden—and no more.

The Incidence of a Sales Tax

By GORDON HAYES

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A SALES tax may take any one of several forms. It may be an inclusive sales tax, that is, a tax levied upon every sale or transaction. Or it may be limited to the exchanges of any one of several classes of transactions. For example, the sales of commodities, or the sales by manufacturers and wholesalers, or the sales by retailers. A tax such as the present theatre tax is a sales tax, but when a sales tax is narrowly limited to some one good or narrow class of goods, it is customary not to call it a sales tax but rather to designate it by the name of the good or service taxed. An extended analysis would be necessary in order to reach a conclusion as to the kind of sales tax, if any, that it would be advisable for us to adopt at the present time. It is the purpose of this paper to consider only one phase of sales taxation; namely, the incidence of a sales tax.

INCIDENCE UNDER COMPETITION

Let us assume, first, that the tax is levied upon the sales of goods that are produced under competition. What will be the incidence of such a tax? The answer must be divided into three parts depending upon whether the goods are produced under conditions of increasing expense of production, or under constant expense, or under decreasing expense. That is, upon whether, as output is increased, the expense of producing the successive

units involves more expense, similar expense, or less expense than was incurred for the preceding units.

Taking the first case, that of a good produced at increasing expense under competition, the conclusion is that the price of the good will be increased because of the tax but by less than the amount of the tax. The burden of the tax will be divided between the buyers and the producers (the sellers) of the good in question. The analysis is as follows: Under competition the market price of a good is set at the point that will clear the market. Any point above this will decrease sales and leave goods unsold. Any point below this will stimulate bidding for the good, and raise the price. But, aside from the competitive bidding of buyers, price will not tend to fall below the point at which the goods on the market will be taken, because it is not to the interest of the sellers to underbid each other below the point at which all can sell. With the price set at such a point, the point that will just clear the market, the imposition of a tax will, if any part of it is added to the price, reduce buying and leave goods unsold. What then will sellers do, who in the case we are considering are producers? Will they bear the tax? Under competition, the production of a good which is produced at increasing expense will be extended to a point at which the price received just equals

the expense of producing the final unit. To stop short of this point will be unprofitable to the producer. If he can produce another unit or another hundred or thousand units at a cost of ninety-five cents, including necessary profit, and sell at a dollar, the tendency will be for him to do so. If a further addition to the output will cost ninety-seven cents and sell for ninety-eight, its production will be undertaken. Further, new undertakings of the production of the good in question will be encouraged until one is included whose cost is equal to price.

There will, then, in the case of a good produced at increasing expense under competition, be an increment of product, the cost of which will just be covered by the price received. Hence if a tax be levied upon every unit sold, output and price can not remain as before without forcing the producer to incur a loss. This he will refuse to bear. He will give up the production of the most expensive units. As a result of this reduction in the supply, price will rise, as buyers will bid price up or, what amounts to the same thing, sellers will pitch the price at a new point that will clear the market of the reduced supply.

The price will not, however, tend to rise by the full amount of the tax. Its location above the old price and below the former price plus the tax, will depend upon the elasticity of the demand and the elasticity of the supply. If the demand is highly elastic, that is, if the amount taken will be markedly reduced as the price increases, and if the supply is relatively inelastic, that is, if the expense per unit will fall but little as supply is decreased, the new price will rise but little as compared with what its increase would be if the demand were relatively elastic and the supply relatively inelastic. Obviously, the

greater the price increase the greater the burden on the purchaser and the less the burden on the producer.

This conclusion is in no way dependent upon whether the tax is collected from the buyer or the seller. If the buyer pays it to the government, demand is reduced and the seller is affected as indicated; if the seller remits to the government, he increases the price, and demand is similarly affected. The net amount received by the seller, the total paid out by the buyer, the amount received by the government, and the volume of output and sales tend to be identical in either case.

Turning to the second possible case, that of a competitive good produced under conditions of constant expense, the conclusion is that the entire burden of the tax falls upon the buyer. The price of such a good will rise by the amount of the sales tax. The analysis is simple. All the units of such a good are produced at uniform cost. Competition among producers will not permit price to be above cost, including necessary profit, and production will not go on at a price below cost. The amount of production will be adjusted so that the market will be cleared at a price corresponding to the cost of production. The imposition of a sales tax will be tantamount to an increase in the cost of production per unit by the amount of the tax. Price will be increased correspondingly. If price is not increased by the amount of the tax, producers will lose on every unit produced. Competition among producers will not permit price to rise by more than the amount of the tax. The increase in price will tend to equal the tax.

In the third case, that of a good produced under competition, the expense of which decreases as successive units are produced, the conclusion is that the price will rise by more than the amount

of the tax. The analysis is as follows: In the case of such a good, price is set that will just clear the market and return an amount equal to the average cost of production per unit to the producers. In case of a good produced at increasing expense, the price that is set must be sufficient to cover the cost of the increment of the supply that is produced at the greatest expense. But in the case of a good produced at decreasing expense, the price must be higher than the figure which represents the cost of the unit which is last added to the supply; for this unit involves a less cost than the units whose production preceded it, and, to set the price at a point equal to the cost of the last unit, would mean that the producer would sustain a loss on every other unit.

The lowest point that will enable the producer to continue in business is a point which represents the average cost of the various units that make up the output. Competition between producers will not drive price below this point in the long run, but it will tend to hold it down to this point. With this price being just low enough to clear the market, any addition to the price will result in goods remaining unsold. This will necessitate a curtailment in production. The curtailment in production will involve higher costs than were involved by the larger volume of production. Adding the tax as a cost will thus result in the price of the good in question rising above the figure represented by the former price plus the tax. The burden upon the consumer will hence be greater than the amount of the tax.

The analysis above has depended upon the assumption that there is keen competition between producers on the one hand and buyers on the other. Is this assumption sound? That is, do men in their economic activity seek

to secure the maximum economic advantage? There are certainly many motives to conduct other than the economic motive. Many persons sacrifice economic gain to the realization of other ends. This occurs mainly in the rendering (or selling) of personal service. In order to do certain tasks, to work in certain places, or to be free from certain conditions many persons do not secure the maximum economic gain.

The professional trader and the manager of a modern industrial enterprise, however, are in their business dealings primarily "economic men." Within the field of economic activity the motives to conduct other than the desire to secure economic goods are with these persons usually realized only through economic gain. The amassing of profits is to these men what the painting of a picture is to an artist. It is the test of success. It is safe to assume that such men are in active competition with each other and are actively watching for advantage with those to whom they sell or from whom they buy. Further, practically all persons in their buying are "economic men." However much one may forego his economic advantage in his work, he usually is quick to buy where he can buy the cheapest. Habit and inertia hold many consumers to lines of expenditure that it would be economical to abandon; but for the most part the consumer attempts to spend his money so that he will get the maximum value. If this be true, then the conclusion reached above in regard to the incidence of a sales tax levied on the sales of goods produced under competitive conditions must be sound.

INCIDENCE UNDER MONOPOLY

What will be the incidence of the sales tax in the case of a good produced under monopoly? The monopolist

tends to set a price that will yield the largest net profits. A tax upon monopoly profits will accordingly not affect the price of the good. Neither will the imposition of a tax of a given fixed sum upon a monopoly alter the price of the monopolized good. In both of these cases, since price is already set to yield the largest possible net profit, a larger sum will be left after the tax has been paid than if the price were altered. But if a tax is levied upon the output of a monopolist, price may be affected. Such a tax will become part of the cost of production of each unit of output, and in view of the demand for the good the greatest profit may now be realized at some other price. The monopolist's decision will be dependent upon the elasticity of the demand and the elasticity of the supply. It may be that the number of articles that would be purchased at a higher price will be much less and the cost per unit of producing fewer units so much more, if it is a good produced at decreasing expense, that less will be sacrificed by bearing the tax than by shifting it. The same might be true if the good is produced at increasing expense. Reduction in output might reduce cost per unit so little and raise price so little that the monopolist would not profit by reducing the supply and raising the price. However, the relative elasticity of the demand and supply may make it profitable for the monopolist to shift the tax either in whole or in part.

It may be argued that, if the tax is inclusive, the entire burden of the tax must fall upon producers, due to the fact that since all lines are taxed, capital and labor will not be withdrawn from any line and consequently price will not rise. The argument would perhaps allow for some shifting from lines where the demand is relatively elastic to lines where the demand is

relatively inelastic. It must be remembered, however, that the tax receipts are spent. The expenditure by the government will lead to the transference of some labor and capital from the taxed fields to the lines of government expenditure. This will reduce output and raise prices, thus throwing the burden of the tax upon consumers, wholly or in part according to the kind of good consumed.

A SUBSTITUTE FOR THE EXCESS PROFITS TAX

But if the tax is substituted for some other tax, the effect upon the consuming public will depend upon whether the tax for which the sales tax is a substitute is being borne by the general body of consumers or by a limited group. If the former, even though the incidence of the sales tax might be said to be in considerable part upon consumers, yet they would be no worse off than before. In fact the tax might be such an improvement in other ways over the former tax that consumers would gain. If the latter, the incidence of the sales would clearly tend to be upon the consumers.

The sales tax is proposed as a substitute for the excess profits tax and for part of the receipts from the upper reaches of the income tax. It is insisted that the incidence of these taxes is upon consumers; that prices have been considerably increased because of them. This has been urged especially in regard to the excess profits tax. Is this true? As suggested in the earlier part of this analysis a tax is shifted only by a rise in price and this can come about as a result of the tax only through a restriction in supply. Supply will not be curtailed so long as production is not rendered unprofitable. Certainly the excess profits tax has not driven producers from the

field. The amount that has remained after the payment of the tax has been more than sufficient to induce enterprise.

This reasoning is amply supported by facts. As Professor Friday shows in his *Profits, Wages and Prices*, the price level began to rise in July 1915. In October 1917, when the excess profits tax law was passed, the price level stood at 181 as compared with 100 for 1913. For the year 1918 the excess profits tax rates were increased; in 1919, they were materially reduced. Prices continued to rise all during this period, the level being 238 in December 1919, and 266 in April 1920. Furthermore, the recent fall in prices was not preceded by any change in excess profits tax rates. Clearly there is no correlation between the price movements of the past five years and excess profits taxation. And similarly the income tax rates have left sufficient in the hands of the taxpayer to induce enterprise.

The income and excess profits taxation has influenced prices, if at all, by preventing extensions of plants that would otherwise have been made. Rather than accumulate profits to be shared with the government, expenditures have been made which, except for the reduction in the tax payment, would have been uneconomical. Without the tax such sums would have been used, in part, at least, for plant extension. But on the other hand, the excess profits tax has operated to encourage the extension of enterprise. The law has allowed an exemption of eight per cent upon capital investment. By reducing the tax payment, this has in certain cases made investments profitable that would otherwise have been unprofitable. Perhaps also the failure of the larger and more prosperous firms to make extensions due to their heavy tax

payments has given encouragement to small producers to make extensions that they would not have made if the larger firms had expanded their business.

The substitution of the sales tax for these two taxes would tend to transfer the tax burden from the richer classes to the poorer classes. The consumers among the rich would, to be sure, bear their share of the sales tax, but this would be to them a substitute for the tax payments previously made. The burden upon the poorer classes would be a new burden. This would be somewhat alleviated by the capital addition which may be expected to follow this change in taxation. The sum that a sales tax would take from this group is now to a large degree being spent for consumption goods rather than being invested. And to leave with the richer classes money that is now being paid in taxes, would mean that it would be invested rather than used to still further increase the consumption of this group. The increase in savings from such a change in taxation would operate to reduce interest rates. Interest rates would also tend to fall because of the reduction in the demand for consumption goods as a consequence of the sales tax. The decline in the interest rates and the extension of investments would both operate to reduce the price of goods. The burden of the sales tax would thus in part be made up to the poorer classes, but only in part. It can not be expected that it would be to the advantage of any family or group of families to give to another family or group of families a sum of money even on condition that it be invested in the particular lines of industry in which the goods that the donors are accustomed to purchase are produced. The advantage of the transfer would necessarily lie with the recipients.

This is the crux of the question of sales taxation as a substitute for the present forms of national taxation. Is it desirable to transfer the tax burdens from the richer classes to the poorer classes? By curtailing the investments now being made by the poorer classes, small as they are, and by augmenting the investments of the rich, the ownership of the wealth of the country will be shifted still more into the hands of a relatively small part of the population.

Is this desirable, even if it means an increase in capital investment? There is already marked inequality in the ownership of wealth. Professor W. I. King estimated that in 1910 two per cent of the people of the United States owned approximately sixty per cent of the wealth of the country.

And further, is it desirable to diminish the consumption power and thereby reduce the standard of living of the poorer classes?

SUMMARY

The incidence of a sales tax would be upon both producers and consumers. In the case of an article produced

under competition at increasing expense per unit of output, as tends to be true of agricultural and mineral products, the tendency would be for the price to rise, but to increase by less than the amount of the tax. If the expense per unit is uniform regardless of quantity of output, which is true of but relatively few articles, the sales tax would tend to increase price by the amount of the tax. If the expense per unit of product decreases as output increases, as is generally true in manufacturing or selling, a sales tax would tend to increase the price by more than the amount of the tax. The incidence of a tax upon the sales of a monopolist would be upon the consumer, in part, at least. The excess profits tax and the income tax are not now borne by the consumer. The substitution of a sales tax for the excess profits tax and its substitution for the higher reaches of the income tax would thus cause the poorer classes in their purchases to bear part of the tax burden now being borne by the richer classes. This would tend to decrease the standard of living of the poorer classes and to increase the concentration of wealth.

The General Sales Tax Is Not the Way Out

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CONSUMPTION taxes and other miscellaneous excise taxes must be relied upon to furnish a reasonable proportion of the vast sums needed as post-war revenues of the United States. A billion dollars sufficed for the fiscal year 1917; for current years, expenditures and necessary debt reduction can scarcely be taken care of with four billion.¹ To place the bulk of the revenue burden upon consumption,

through the instrumentality of the widely urged general sales tax would,

1920, indicates that the ordinary expenditure for the fiscal year ending June 30, 1921, will be as much as \$4,851,298,931 and that the corresponding figure for the fiscal year ending June 30, 1922, will be \$3,897,419,227. These figures are not inclusive of any amounts for reduction of the public debt, and are based in the main upon estimates. Through the action of Congress the actual expenditures may be reduced below these estimates. It does not seem possible, however, that expenditures for this year or next year can be reduced much below four billion.

¹ The Annual Report of the Secretary of the Treasury, submitted to Congress in December,

however, be unjust and unsound. Such a course would be a reversion to methods of taxation discredited by modern thought.

Under the revenue legislation now in force, according to the latest reliable estimates, out of a total estimated yield for the calendar year 1921 of approximately four billion, there will be derived from taxes on tobacco, admissions, transportation, automobiles, musical instruments, sporting goods, candy, toilet articles, jewelry and luxuries about \$1,300,000,000, compared with a yield of somewhat less than one billion from the individual income tax, about half a billion each from the income tax and from the excess profits tax on corporations, \$200,000,000 from minor business taxes such as the capital stock tax, stamp taxes and license taxes, and somewhat under \$400,000,000 from customs duties.²

Thorough-going proponents of the general sales tax urge that the tax system be changed so that the greater portion of the revenue will be derived from a flat tax on sales or "turnover." The rate ordinarily proposed for such a tax is one per cent, and estimates of the yield relied upon by them vary from somewhat less than two billion to as much as six billion. The taxes which they would supplant are the excess profits tax, the current estimated yield of which is rather less than half a billion, the corporation income tax, and at least the greater part of the

² These figures are taken from an unofficial estimate made in January, 1921, by Dr. Joseph S. McCoy, Actuary of the Treasury Department—*see* revised report of the Tax Committee of the National Industrial Conference Board. Preliminary statements as to the amount of income and excess profits taxes paid on March 15, 1921, appear to indicate that the actual yield, which was very difficult to gauge because of the changed business conditions, will be somewhat higher than this estimate.

individual surtaxes. Sales tax advocates are not clear and not in harmony among themselves as to what would be done with the present miscellaneous consumption taxes, but presumably these would be in the main supplanted by the general flat tax.

In current discussions proposals for far-reaching uniform sales tax take at least three forms:

1. A tax on every sale or turnover not only of commodities but also of services, real property, capital assets and on rent and interest.

2. A tax on every business sale or turnover of goods, wares and merchandise—sometimes referred to as the merchants' gross sales tax.

3. A tax on all final sales of goods, wares and merchandise for consumption or use.

The first two differ only in the scope of their application, and most of the difficulties with the wholly inclusive tax apply also to what is left within the scope of the more modified second form. While the first form "a tax on all sales by anyone to anyone" would have the merit of simplicity in definition, it is scarcely conceivable that any tax seriously considered for adoption would include the bothersome item of services, or would be made so burdensome as to cover sales of real estate, sales of securities or sales of capital assets. A tax in the third form, on "final retail sales" only, would involve so much practical difficulty in requiring the constant distinguishing of final sales for consumption from other sales, and would have to be so high, probably at least four or five per cent, to yield the amount desired by sales tax advocates, that it does not require special consideration. Discussion is therefore directed to the tax in the second form—a tax on all sales of goods, wares or merchandise, at a rate sufficient to yield the bulk of the needed revenue. It is assumed that

such a tax would be assessed upon the net sales of each taxpayer, presumably for each month, and would not be required to be collected from the buyer by the seller as a separate item. Such a requirement is clearly not adapted to conditions prevailing in commercial transactions in this country, and would constitute an intolerable clog and annoyance.

The general sales tax seems on first consideration to afford the most attractive solution of the revenue problem. The advocates of this tax maintain that it would easily furnish the bulk of the needed revenues; that it would be the fairest of all taxes, because under it, all transactions are treated alike; that it would be economically beneficial through freeing for investment purposes funds now absorbed in taxation, and through furnishing incentive for industrial effort by increasing the portion of profits that could be retained; that it would be easier upon the consumer than present forms of taxation because there would be less "pyramiding" of taxes; that the taxpayer would always know where he stood in reference to his obligations to the government instead of being involved, as at present, in long continued doubt and uncertainty; that the government would be more securely financed through a tax which did not depend upon profits, and more conveniently financed by reason of the collection of the bulk of the revenues each month instead of at quarterly periods; and that the tax would be far easier for the government to administer than income and profits taxes.

This is a formidable array of arguments, but analysis shows that the only arguments for the general sales tax having any substantial foundation are those of convenience, and that even here the advantages are generally

exaggerated. In its fundamental aspects the general sales tax is open to objections broadly classified as follows:

1. The general sales tax is essentially unjust in that it is a tax levied according to needs rather than according to ability to pay.

2. The general sales tax is grossly discriminatory. Insofar as the tax can not be shifted it is distributed according to gross income, which furnishes no measure of tax-paying ability. This tax treats as being alike transactions which are fundamentally unlike; it subjects to very unequal risks taxpayers in substantially similar positions; it affords an indefensible bounty to the large integrated industry as compared with smaller industrial units.

3. The tax rests upon an artificial basis in that it turns upon the mere form of business transactions, and would lead to undesirable changes in business practices.

Approach to the general sales tax is frequently made through the avenue of foreign experience. There is, however, very little in experience in other countries to commend the tax theoretically, or indeed to furnish any basis for a judgment as to how it would operate under the very different conditions prevailing in the United States. The sales tax is by no means new; it was used in Egypt, in Babylonia and in Rome.³ Under the rule which prevailed in France prior to the Revolution, and which has prevailed in many instances when a privileged aristocracy was in a position to dictate the method of securing the funds of the state, the greater part of the revenue was drawn from sales taxes which applied directly to the necessities of the common man. One of the chief objects of the democratic movement was to get rid of methods so oppressive.

³ For remarks and as to the history of the sales tax and foreign experience, see Professor E. R. A. Seligman's report, *Proceedings of the Second National Industrial Tax Conference (1920)*, pages 70-83.

THE SALES TAX IN OTHER COUNTRIES

In current practice the most notable instances of the use of the general sales tax are those of France and Canada. In neither case is the tax a flat general tax. In France the turnover tax instituted on July 1, 1920, covers three categories:

1. 1.10 per cent on general turnover, except such turnover as comes under headings 2 and 3 below.
2. 3 per cent on all business classified as category 11 of luxury trades (articles which are considered as luxuries if price exceeds a certain figure).
3. 10 per cent on all business classified as category 1 of luxury trades (articles, which from their nature, are considered as luxuries).

It is clear that it was regarded as unreasonable to adhere to a general flat rate, and that the classification of articles adopted must involve many difficult distinctions. According to official reports it furthermore appears that this tax is yielding not over forty-five per cent of the estimated revenue. France has been notably backward in the development of a modern, adequate system of taxation.

The Canadian tax rests upon sales of finished articles by manufacturers, wholesalers and jobbers. As originally adopted it was coupled with other taxes upon the sales of a variety of specified commodities at rates of 3 per cent, 5 per cent, 10 per cent, 15 per cent, 20 per cent and 50 per cent, and was subject to a long list of exemptions which included all food products, building materials for construction purposes, fuel, and other articles, and was subject to the power of the governor and council to add to the list of exempt articles so far as it was deemed expedient or necessary. The luxury taxes have been recently modified to meet the changed business conditions. Neither in France nor in Canada is the

volume or complexity of transactions at all comparable to those in the United States.

In the Philippines the one per cent sales tax often referred to, which represents a continuation of Spanish methods, applies to sales of merchandise in raw, manufactured or partly manufactured state and also to the sales of various kinds of services including those by power, transmission and transportation companies, but is subject to a large number of exemptions including the sales of agricultural products used by farmers and the sales of small merchants. Philippine business is too trifling for mention in comparison with United States business, and we can not turn to the Philippines for instruction in the field of finance any more than in the field of politics. Mexico has indeed a comprehensive general sales tax, but even the Carranza government, after a careful report, recommended abolition of the tax because of cost of collection and the injustice to the poorer classes. One of the first acts of the United States on coming into the possession of Cuba was to abolish the old sales or *consumo* tax and substitute other methods of taxation. In England, where taxation is generally believed to have been handled with greater consideration and intelligence than in any other country, the sales tax has been carefully considered and rejected; so also in Italy.

DOES NOT DISTRIBUTE REVENUE BURDENS FAIRLY

To warrant adoption for a major source of revenue, other than as a last resort, a tax must be shown to rest upon some principle which makes it fair to the average citizen. The general sales tax rests upon no such principle; its theoretical basis is the bald proposition that the consumer must

foot all the bills. This proposition makes about the same appeal to the citizen as did Ricardo's "iron law of wages" to the workingmen. That "law" doomed the wage worker to the minimum wage needed for bare subsistence; the sales tax, resting upon no higher ethical basis, would levy a toll even upon that wage.

That the consumer would pay the general sales tax is the outspoken and fundamental position of its advocates. And the burden which they would lay upon the consumer is not light, as implied by the one per cent rate usually suggested, but heavy. The minimum yield desired is two billion dollars—more than the entire yield of the income tax at its highest. The rate necessary to procure the revenue desired from this source would very likely be as much as two per cent instead of one per cent. The most reliable estimate of the yield of a one per cent tax covering sales of all kinds by traders, manufacturers, mines and farms—the estimate of Dr. Joseph S. McCoy—is \$1,100,000,000. To assure two billion or more it would therefore seem to be necessary to make the rate two per cent.⁴

Under this tax all sales transactions would indeed be treated alike, but far from being just this uniform treatment would be grossly inequitable. It has been wisely remarked that no injustice exceeds that of treating as equals things which are unequal. The general sales tax would levy toll upon sales of bread, of medicines, of ploughs, of tools, of building materials, of the simplest clothing, and would levy toll at the same rate from the sale of jewels, candy and of automobiles. Sales do not pay taxes, the money must come from the buyer or the seller.

⁴ See report of the Tax Committee of The National Industrial Conference Board, December, 1920, pages 13-14.

There is nothing whatever in the fact that all desired goods must be bought, which warrants a conclusion that all buyers can justly pay to the government the same percentage on the price of what they buy. The one argument for such a method of tax is that sales may furnish a basis for collecting revenue which is convenient. That argument may suffice for a levy very small in total burden, or resting upon articles not of prime necessity, but it fails to justify a uniform toll upon all articles, both necessities and luxuries.

In sharp contrast, the income tax rests not upon needs but upon ability to pay. That ability is measured generally by the taxpayer's increase in assets over the taxable period, and increases progressively with the amount of the income. Here we have a genuine principle commanding itself as fair to the individual. More effort upon the part of the taxpayer and of the government is required for the collection of taxes according to this principle, but as in almost every field painstaking effort is the price of justice.

Sales tax advocates urge, however, that the consumer pays the taxes now—not only the excess profits tax, but also the income tax. The position that the consumer pays income and profits taxes is somewhat difficult to reconcile with the zeal of sales tax advocates to do away with such taxes on the ground that they stifle industry. How can industry be burdened by taxes which are passed on? The truth of the matter is probably that taxes assessed against net incomes from business activities are in part shifted.⁵ Under conditions such as prevailed during the war, those of a "sellers'

⁵ For an interesting and illuminating discussion of the relation of the income and excess profits tax to prices, see David Friday's *Profits, Wages and Prices*, Harcourt, Brace & Howe, 1920.

market" taxes on business income may be largely shifted, while under conditions such as now prevail they may be shifted to a relatively small extent. Always the producer near the margin finds it difficult to shift, for his prices can not be increased. Decisive here, however, is the consideration that the placing of the bulk of the tax burden directly upon income and profits leaves it in the first instance where the ability to pay is clear, and in such a way that the largest possible portion will actually be paid through subtraction from income and profits.

That there would be less "pyramiding" of the general sales tax in the course of passing it on than of the income and profits taxes is a proposition without real foundation. Colorable support for this idea is drawn from a picture of the sales tax as a one per cent item which can be added as an item of a particular invoice. Waiving the difficulty that very many sales are not invoiced at all, it is apparent that even for invoiced sales one per cent covers the tax only in the case of initial sales of raw materials, and even then only approximately. When the manufacturer or dealer comes to make a sale, he must, in order to cover the tax which he has had to pay or bear, allow not only for the tax applying to what he sells but for many things purchased by him subject to tax, not resold by him but constituting elements of expense such as equipment, packages, fuel and the like. Under any practicable sales tax plan this tax, like any other item, will so far as possible be treated by the sellers simply as an element of expense, not separately disclosed to the buyer, and subject to the same possibility of increase when passed on as is any other item of expense. Under this tax, as under income and profits taxes, the seller will charge all that he believes he can charge wisely,

and the buyer must depend for protection against pyramiding not upon the form of tax but upon the maintenance of competitive conditions.

Keeping up a flow of profits available for investment in industry is essential to the successful working of the industrial system. It is, however, difficult to urge that business profits should in such times be left free from any substantial tax and that the needs of the government should be met by the consumer, whose participation in the benefits of the investment process is rather more limited than the participation by the investors themselves. So long as government expenditure remains inordinately high, the flow of capital for investment is bound to be checked, whatever the form of taxation. Just distribution of the revenue burden is a consideration of even more pressing importance to those who desire to maintain the present industrial system than the full maintenance of the flow of profits for investment. On no economic or social principle so far developed can the general sales tax stand comparison with income taxes as the major revenue source.

INDEFENSIBLE DISCRIMINATIONS

Subjected to the same tax, sales transactions of every sort would result in indefensible discrimination in the distribution of the tax burden.

So far as the general sales tax is not shifted to the buyer it would constitute a tax distributed according to gross income. Such income furnishes no test of taxpaying ability. A manufacturer having a substantial investment in plant and comparatively small turnover may realize on his sales a high percentage of profit, his net profit being a large percentage of his gross receipts. If we assume that on sales of \$500,000 such a manufacturer realizes fifteen per cent or \$75,000, the sales tax

which he would be required to pay, if he could not shift the tax, would, at the rate of one per cent, amount to \$5,000. In many lines, notably in jobbing and some retail lines, the gross profit is very low and the large turnover is what produces a satisfactory return upon the capital. Thus, according to the reports of the Harvard bureau of business research the average wholesale grocer turns his capital five times a year and makes a net profit on his sale of somewhat less than two per cent. To result in \$75,000 profits the sales of such a grocer would have to amount to \$3,750,000. The grocer's tax upon such sales would, at one per cent, amount to \$37,500. Accordingly, if the grocer could not shift his tax he would in the case assumed be paying more than five times as much to the government as the manufacturer, although his net profits, except for the tax, would be exactly the same. The government would take one-fifteenth of the manufacturer's profit, but would take one-half of the grocer's profit. This is by no means an extreme case, for the difference in rates of net profits and the range of difference in relation of net to gross are very great. Nor is it idle to say that a large part of the total burden of the sales tax could not be shifted. Merchants selling goods at established prices or selling broken lots, merchants already charging all that the traffic will bear without destructive loss of volume, would be helpless before the discriminatory levy of the general sales tax.

Even where the tax can be largely shifted those who pay it in the first instance are subject to very unequal risks. In the illustration stated the manufacturer in making his payment to the government risks only \$5,000 while the grocer risks \$37,500. The government would take the money but would give to the taxpayer neither

guarantee of his ability to collect it out of the buyer nor justification for requiring him to pay it himself. This levy would operate not only in prosperous times when the taxpayer would feel able to pay it or in a position to collect it out of the buyer but also in hard times when unavoidable expense can barely be met.

Discrimination through the cumulative effect of the general sales tax has been often pointed out but never explained away. How this results is seen by considering such a situation as, for example, that existing in the shoe industry. Here, if the business is conducted by a great integrated enterprise, there may be but one or at most two sales between the raw leather and the delivery of shoes to the wearer. While if the different steps in the process are carried on by small dealers there may be five or six sales as follows:

1. Hides to tanner.
2. Tanner to leather merchant.
3. Leather merchant to shoe manufacturer.
4. Shoe manufacturer to jobber.
5. Jobber to retailer.
6. Retailer to consumer.

Where the goods pass by successive sales through six hands a sales tax will be levied six times. Where the goods move directly from the tanner to the consumer there would be one tax. The profits in the shoe industry are in general a very small proportion of gross receipts, frequently as low as two per cent, and this discriminatory cumulative tax burden might mean the difference between the success and failure of the small units. Even more striking instances of the disastrous cumulative effect of the tax might be taken from other lines of industry such as the textile field or the field of the metal industries, where there may be seven or eight sales between the raw

material and the placing of the finished articles in the hands of the consumer.

Under the income tax such discrimination does not occur. The net profits resulting from each stage in the process of manufacturing are taxed to the small unit where they are realized by small units but are also taxed to the great enterprise where that enterprise realizes profits from several different processes. That small units have been able to survive in many fields of industry in spite of certain advantages enjoyed by larger enterprises furnishes no justification for placing upon them a discriminatory tax burden, and on the contrary makes it clear how desirable it is to keep the small enterprise free from such burdens. It does not appear to be practicable to meet this difficulty of the cumulative effect of the general sales tax by attempting to apply the tax to each clearly marked stage in the processes of the integrated industry. The large manufacturer does not and can not sell raw materials to his factory or finished goods to his jobbing branch, and to attempt to set an imaginary price on the goods as they pass from one stage to another would lead to endless difference of opinion and confusion. Taxes to be practicable must follow transactions and not create them. They must be made to rest upon real transactions, not upon imaginary transactions.

UNDESIRABLE BUSINESS PRACTICES

Even as applying to actual sales the turnover tax would rest upon an artificial basis and would result in undesirable changes in business practices.

The use of direct sales upon which this tax would rest would probably be materially restricted in order to avoid the tax. Even where the tax could be shifted it would still be a substantial competitive advantage so to conduct

business as to avoid accumulation of the tax. The burden of a one or two per cent tax on gross sales added at various stages is by no means light and would be emphatically worth saving. Hence the woolen manufacturer instead of buying his yarn would buy the wool and hire the spinner to make it up into yarn, and would also hire the dyer and the finisher. Sending of goods out to be processed would become a standard practice; consignments would take the place of direct sales. Effort to avoid the tax might result in the absorption of small units into the larger enterprises, a process that might have some advantages but which is not to be justly accelerated by a scheme of taxation.

Some advantages of convenience to the taxpayer the general sales tax undoubtedly has. It is simpler to make up a statement of net sales than a statement of net profits; it is easier to pay monthly than to pay quarterly; it is a relief to feel that a tax paid can not be the subject of any real difference of opinion. Yet these advantages of convenience are less important than it seems. Even though the general sales tax were adopted as a major source of revenue, a modified income tax would very likely be retained so that the sales tax reports would be additional and not in substitution for net income reports. Quarterly payment of income taxes as now permitted enables a prudent taxpayer to adjust his financing in a reasonably convenient way. Differences as to tax assessments, which have been so frequent, have arisen mainly as to excess profits taxes. That tax is distinctly a war tax. It ought to be abolished at the earliest possible date, and it can be abolished without resort to the general sales tax. Under the income tax alone, with increasing experience by taxpayers in the application of the

tax, increasing improvement in the structure, interpretation and administration of the tax, difficulties with it should be far less in the future than they have been in the past when it has been a new tax operating under war conditions. What advantage in the convenience of the sales tax compares with the advantage of the income tax in ceasing to accrue when there is no net income?

This very consideration, that the income tax diminishes in yield in bad years, of course emphasizes the need of the government to have at all times sources of revenue other than income taxes. Such sources can, however, be maintained as they have been without resort to the wholly inclusive general sales tax. So far as sales taxes are needed, and they will be needed for some time, use can continue to be made of taxes levied upon the sales of selected articles not of prime necessity

and levied at one stage of the process only so as to avoid any cumulative effect.⁶

That objections to the general sales tax are much more than academic is shown by the rejection of 'the tax' by the United States Chamber of Commerce in the recent referendum to its constituent local chambers of commerce throughout the United States; by the Tax Committee of the National Association of Credit Men; and notably by the rejection of it, after careful consideration and investigation, by the Tax Committee of the National Industrial Conference Board.

⁶ For a discussion of the methods of replacing revenue lost through the abolition of the excess profits tax and reduction of surtaxes, see the report of the Tax Committee of the National Industrial Conference Board, Special Report No. 18, December, 1920. See also in such report the discussion of the general sales tax and full statement of the reasons which induced a report against this tax by a committee unusually representative of industry.

The Tariff Policy of the United States As a Creditor Nation

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THE problem of providing the United States Government with sufficient revenue to meet its fiscal requirements is one which, of necessity, is demanding the thoughtful attention of those charged at the present time with that responsibility. With the loss of excise taxes due to prohibition and the increasing diminution in the returns from the chief sources of revenue under existing laws—the income and excess profits taxes—it is not surprising that this country should turn to the tariff as a possible means of raising additional revenue. Indeed, it is a repetition of history that

import duties should be called upon to help meet the revenue burdens occasioned by war and, furthermore, that an upward revision of the tariff schedules should be strongly agitated in a period of unbalanced domestic markets by those who fear the importation on an extensive scale of commodities produced abroad under supposedly more advantageous conditions.

Current estimates indicate that something in excess of four billion dollars will constitute the minimum ordinary fiscal needs of the government for the next two years, exclusive of the retirement of the certificates of

indebtedness outstanding, practically a quarter of which will be required to pay the interest charges on government securities issued in conjunction with the war and the carrying costs of the Treasury Department's floating indebtedness. Of the estimated total given, the Underwood Tariff—which carries the lowest average rate of duty of any enactment since the Civil War—has proved itself capable of producing a minimum of \$182,759,000, in 1918, and a maximum of \$323,537,000, in the year 1920.

A study of the principal sources of federal revenue by decades since the beginning of the nineteenth century indicates that customs supplied from seventy to ninety per cent of the revenue received from 1800 to 1863. With the rapid rise in the national debt at that time, customs, for a matter of about six years, yielded only from twenty-five to thirty-five per cent of the total revenue, following which, up through the period of the Payne-Aldrich Act, the returns from the tariff fluctuated from one-third to one-half of the total receipts. The balance accrued with the exception of about ten per cent derived from miscellaneous sources, from excise taxes principally on distilled liquors and tobaccos.

Prior to our entrance into the war the Underwood Tariff appears to have accounted for substantially a third of the government's fiscal requirements. If the pre-war federal requirements be multiplied by six, an estimated deficit faced for the next two years of from one and one-half to two billion dollars, and the returns from liquor taxes practically eliminated, there can be little doubt that the government can well afford to consider carefully the revenue possibilities of the tariff, but with a full appreciation of the fact that the income and excess profits taxes, as they now exist, are decidedly

more important than the tariff from a revenue standpoint.

Acknowledging that additional revenue will be needed—a fact hardly subject to refutation on the basis of probable reductions in the federal budget of consequence in the near future—and that the tariff might be expected to produce a substantial part of it, it might appear in the light of past experience that the requests from domestic industry for a higher protective tariff could and should be quite fully satisfied. To do so, however, under existing domestic and international conditions, would place this country in an anomalous and, in some respects, a disadvantageous position from both a fiscal and trade standpoint. The objections which might be raised to such a procedure under the circumstances would be relatively unimportant, perhaps, so long as the fundamental principles of equitable taxation were not violated, although many of the arguments formerly advanced in favor of a protective tariff have lost much of their original force due to the growth of the productive facilities and the consumptive power of the United States.

The successful application of the income and excess profits taxes demands a substantial volume of profitable business which will yield a return comparing favorably with the amount on the basis of which the revenue estimates and levies were formulated. To those who understand the elements and economic forces which govern the continuity and stability of industry and trade, it is quite clear that the present economic situation in this country has been precipitated, in a large measure, by an increasing inability to dispose of its excess production through export channels and concurrently receive reimbursement therefor which will permit an uninter-

rupted turnover of its productive cycles. And it is to be remembered in this connection that the expansion which the productive capacity of the country underwent during the war period unquestionably requires the stabilizing support of permanent foreign markets if maximum production is to be approximated, if full employment is given to labor on wage scales even relatively higher than those existing in the pre-war period, and if the normally anticipated amount of revenue is to accrue to the government from business and individual incomes.

The crux of the situation from a trade standpoint is that the position of the United States as a creditor nation is such that necessity, rather than a mutually beneficial exchange of commodities and services, is being substituted more and more as the primary inducement for purchasing the products this country has to offer. The fact that a trade balance exists in its favor might or might not be important from a tariff standpoint, depending on the purposes of the duties levied. England, for example, had an unfavorable trade balance for years and yet followed a policy of confining the import duties imposed solely to the purposes of revenue. Her ability to assume such an attitude is to be explained in part by the volume of her "invisible exports" which according to estimates of the British Board of Trade aggregated £640,000,000 in the year 1920; while Sir George Paish is authority for the estimate that the net investment of British capital abroad in 1914 amounted to approximately \$20,000,000,000. However, from the standpoint of present tariff legislation, particularly when further protection is being advocated, the amount of the entire international balance in favor of this country has an important bear-

ing on the subject, if due consideration is to be given to the liquidation of existing foreign indebtedness to the United States, and to the ability of present foreign debtors to safely incur additional obligations through further purchases of its surplus products. Upon that consumptive ability, domestic industry and the Treasury Department seem to need to rely, the former for a maximum amount of profitable business and the latter, both directly and indirectly, for revenue.

During the abnormal conditions of the past several years it is estimated by some authorities that the position of this country has changed from a debtor nation to that of a creditor with an aggregate balance in its favor of perhaps as much as eighteen billion dollars. With a marked decrease in the total value of the invisible exports formerly available to them, with the practical exhaustion of international banking credit, and with gold stocks a hopelessly insufficient and quite inadvisable means of trade settlement, but two other channels remain through which foreign debtors can effect payment,—the shipment of goods and the sale of securities. Under these circumstances, and giving due regard to the fact that foreign countries face the payment of a current floating indebtedness of from \$3,500,000,000 to \$4,000,000,000 in addition to an annual interest charge of nearly \$500,000,000 on loans extended by our government, the proposal to raise a high tariff barrier around this country assumes more importance than that of merely satisfying the protectionist. The government, from a revenue viewpoint, has a selfish interest in assisting, in every way compatible with the safety of our domestic industries, the creation of international trade balances, which will make it possible for the annual interest charge on its foreign loans to be

liquidated. It would appear relevant to remark that this amount totals more than twice the average annual sum realized from the Underwood Tariff. Even if balances created by increased imports were not sufficient for a time to leave a surplus to be applied on the interest indebtedness, presumably they would serve at least as an offset for exports in which the government likewise is interested to the extent of insuring a degree of domestic prosperity sufficient to produce a satisfactory return from internal taxes. Furthermore, it is patent that the yield from any tariff is dependent upon the volume of dutiable imports.

But it would be short-sighted indeed to enact any tariff law which did not provide, equally well, protection where it was justified, revenue where it could be secured without placing an unjust tax on manufacturers dependent upon imported raw materials, and a basic principle building towards the ultimate payment of foreign indebtedness. The tariff law needed at present would combine the principle of a tariff for revenue with that of minimum protection where essential, with the emphasis placed upon the former. The inter-dependency of interests, domestic and foreign, must be given proper weight if the democratic principle is to be observed of enacting legislation from which will accrue the greatest benefit to the largest number. Presumably, the realization of such a principle rests upon the maximum possible volume of trade with a minimum burden to the ultimate consumer.

In considering the community of interests which should exist, a general indictment can not well be made of the motives of those whose natural interests lead them to advocate a protective tariff for the industries of their constituents, for, all things being equal, any legislation which increases the

earning power, productive capacity, and stability of any domestic industry should result theoretically to the advantage of the immediate communities concerned and hence indirectly to the nation as a whole. It is such individual consideration and the "swapping" of support on the different schedules, however, which have carried protection much further than the point to which in certain instances there might have been a reasonable claim. The difficulty in the theory arises that "all things are not equal," a circumstance of which fair cognizance frequently is not taken, due to selfish and political considerations. It is a moot question how far protection should be given to any industry if, by so doing, it is placed in a position to keep out foreign competition that normally would provide one of the principal offsets against which other producers could ship their surplus and be assured of the margin of profit necessary in many cases to successful operation. In this connection it may be of interest to recall that this country recently has had a noteworthy example of the extent to which it considered its economic welfare dependent on the operation of any given industry, large though it might be, in the abolition of the manufacturing plants and distributing agencies of the brewery and liquor interests.

It seems to be conceded that the industries and those producing exportable foodstuffs and raw materials in the United States, as a whole, are in a preferred competitive position. It can not be stated conclusively, however, that no protection whatever is needed, for it is conceivable that some of the domestic markets could be seriously handicapped by the inflow of a large volume of goods produced at lower costs abroad, since American buyers can purchase more advan-

tageously in certain lines in foreign countries than at home, due to the enhanced value of the American dollar with respect to local currencies. The only protection offered to the United States by the depreciated exchanges is to be found in those cases where raw materials must be secured, in the main, from this country for manufacturing purposes and then re-exported in the form of a manufactured article. Recent instances are available in the field of finished cotton goods showing that even under such circumstances, and in spite of a protective tariff, foreign manufacturers have under-sold American producers of similar products. Incidentally, this example will serve, possibly as well as any other, to illustrate the well-recognized fact that the final incidence of a protective tariff falls upon the ultimate consumer through an increased price.

An analysis of what are perhaps the latest reliable comparative statistics showing the relative value of the output per labor unit in the United States and in the United Kingdom—our principal foreign customer and trade rival—rather clearly indicates that the higher wages enjoyed by labor in this country probably have been made possible more through the development and use of labor-saving machinery and through large-scale production than by a protective tariff, as has been quite commonly asserted in the past. While

it is readily granted that statistics serve better as indices than as final proof of a given conclusion, and admitting the difficulty under existing conditions of securing reliable data which might serve as a basis for levying duties that would tend to equalize costs, the British Census of Production of 1907 and the last American Census of Production of 1909, make possible startling comparisons of relative efficiency. An examination of twenty-six representative industries including boots and shoes, cardboard boxes, butter and cheese, cement, clothing, cocoa, chocolate and confectionery, cotton goods, clocks and watches, cutlery and tools, gloves, hosiery, finished leather, paints, paper, printing, silk, soap and candles, etc., shows that American industries produce from approximately two to three times as much per year per unit of labor, in the valuation of commodities manufactured on the basis of wholesale selling prices, as do corresponding English industries. These figures are secured by dividing the production per year by the number of wage-earners engaged in each given industry. The same tables indicate that almost invariably America's great superiority in production per wage-earner per year is accomplished by a similarly marked superiority in horse power employed for each thousand workers. The following are given as typical illustrations:

CLOTHING

	Production per year	No. of wage-earners	H. P. employed	H. P. per 1000 wage-earners	Value of production per wage-earner per year
United Kingdom.....	£62,169,000	392,084	17,837	45	£158
United States.....	£190,566,000	393,439	65,019	165	£484

BOOTS AND SHOES

	Production per year	No. of wage-earners	H. P. employed	H. P. per 1000 wage-earners	Value of production per wage-earner per year
United Kingdom.....	£20,095,000	117,565	20,171	172	£171
United States.....	£102,359,000	198,297	96,302	486	£516

As an example of the extractive industries, it is also of interest to note that in the year 1911 the number of tons of coal produced per annum per person employed in England was two hundred and sixty while in the United States it was six hundred and thirteen; the average selling price of coal per ton at the mouth of the mine in the same year, at a par of exchange, was approximately \$1.97 per ton for Great Britain, and \$1.42 per ton in the United States, in spite of the fact that higher wages were paid to the miner in the latter country. The relative advantage in manufacturing costs to a United States producer using steam power is obvious. What current statistics would indicate is not known but, generally speaking, recent difficulties between the miners in England and the government over the matter of wages and production would lead to the belief that a present comparison would prove even more unfavorable to England.

In further analyzing the whole question of comparative costs, it seems to be quite generally agreed that the war introduced a more or less uniformly higher world wage scale and higher standard of living, and that the effect on manufacturing costs was quite as marked and permanent in many of the foreign countries as it has been in the United States. If that viewpoint is correct and on the basis of the comparative figures just given, the conclusion would seem to be that the American producer in most instances can afford, for other reasons, to forego the enactment of a tariff to equalize costs of production, at the moment, or at least until the whole question can be adjusted upon a scientific basis of the facts as they now exist. Furthermore, if the theory of equalizing costs is pertinent, under present conditions it might be in order to beg the question to the extent of asking why, with the exchanges in

favor of buying abroad, the figures of the Department of Commerce continue to show large trade balances in favor of this country, the most recent (January, 1921) placing the exports for the first month of the year at \$655,000,-000 while imports were only \$209,000,-000, the smallest total for any month since February, 1918.

Relative to German competition, it should be borne in mind that in addition to a demoralized social structure Germany's industries must face large internal export taxes in addition to burdens imposed by the indemnity terms. In view of these handicaps and her depreciated exchanges, which play an important part in depriving her of many necessary raw materials, it would appear the part of enlightened selfishness not to subject her exports to this country to any unnecessary tariff if the ultimate payment of the international balance in our favor is considered dependent, to any appreciable extent, on the proceeds to be received by the Allied governments from a war indemnity.

South American exports to the United States, to quite a degree, are tropical and hence largely non-competitive in character. Like the Far Eastern nations, France, Italy and the other European countries consuming American products, the depreciated exchange position of South American countries requires that their imports must reach this country in larger volumes if the increased exports enjoyed in the past few years are to continue. If a tariff has any appreciable virtue, under such circumstances, its revenue possibilities, directly and indirectly, should seemingly be given paramount consideration.

The demands on the part of the farmers and other raw material producers for protection are interesting because they appear to be based

largely upon false economic principles. If production in those directions were less than the amount domestic markets normally absorb, their arguments would be entitled to a more sympathetic hearing. On the contrary, the price of wheat, cotton, or any other commodity produced in excess of domestic demand is established in the final analysis in the markets of the world—Liverpool in the case of wheat—by the marginal exportable surplus. In other words, if a farmer raises ten thousand bushels of wheat and there is a domestic consumptive demand for but nine thousand bushels, it is the price obtainable in the export market for his surplus of one thousand bushels that tends to fix the price for his whole crop. For that reason foreign trade is important in fixing prices, to a much larger degree than the small proportion it bears to domestic trade. By diverting the world's supply of wheat, produced outside of the United States, more directly to Liverpool, by means of a protective tariff, a tendency might even be encouraged to lower the price domestically. With no basic or "pegged" price the ultimate return to the farmer undoubtedly would be governed by the export price irrespective of any import duty imposed.

But even presuming that the price conceivably should be higher for some reason under a tariff, it is a political-social question of some importance whether a primary necessity of life should be protected by a tariff, the burden of which would fall on the masses. This class of producers might more profitably direct their attention, it would seem, toward advocating the elimination of excessive duties on manufactured articles into which their raw materials go. Their efforts in that direction not only would help to sustain the export demand for their own products and benefit the general

situation, but also would make the returned manufactured articles available to themselves at lower prices.

If the tariff is to be rebuilt with a view to securing the maximum revenue possible, due regard must be given to its relation to the income taxes and a firm foundation should be laid for future foreign trade with a minimum of protection given to those certain few essential industries which can present particular claims of an indisputable character for tariff consideration. The amount of duty to be levied on each commodity would require individual analysis, but the general policy might well be to impose a tariff designed to secure as much as the traffic would bear without materially decreasing the unit volume brought in or placing manufacturers dependent upon imports in a disadvantageous competitive position. It is quite possible that many or most of the three hundred and sixty-three articles appearing on the free list of the Underwood Tariff should carry import duties for revenue purposes. In any event under the program suggested, sugar, wool, coffee, tea, rubber, furs, hides, silk, cocoa, vegetable oils, spices, hemp, flax, long staple cotton, nitrates, potash and other minerals imported through necessity, tropical fruits, hard-wood lumbers, and other largely non-competing raw products would be among the commodities taxed; likewise perfumes, diamonds, cutlery, tobaccos, silk manufactured goods, china and fine glassware, and other articles of the luxury class would be included. In the case of dye-stuffs, and perhaps a few classes of manufactured goods, where industries have been established in a large way with the aid of a tariff and the question of the immobility of labor enters into the situation, if some protection were accorded temporarily, the exception made would have the virtue

at least of yielding additional revenue, pending a readjustment of such industries which would place them in a position, unprotected, to compete in the markets of the world on an equal basis.

The tariffs being instituted or revised upwards by many foreign countries of late, offer an opportunity for the United States to show business sagacity and statesmanship of the first order by refusing to retaliate, at least for the time being. To retaliate would only complicate the situation and place the country in an even less favorable position for securing payment of its foreign accounts and for providing future markets for its exportable surplus. The losses sustained during the past two years by exporters in this country ought to offer sufficient proof that a sale of commodities for which no payment, or only partial payment, is made leads to embarrassment or ruin in foreign as well as domestic trade. The foreign tariffs in most instances are being levied on non-essentials, as no government can hope to stand which compels a discouraged citizenship to pay an unnecessary tax upon products essential to a country's economic well-being. If in addition some revenue is raised through tariffs, the country benefited is to that extent in a better position to liquidate its foreign obligations. In

that, the United States should have a genuine interest, unless it prefers to tax its citizens indefinitely to pay the coupons of the liberty bonds offsetting its loans to foreign governments. Furthermore, it is perhaps quite conceivable that a creditor nation of influence will be in a position, if necessary, to ask and receive relief for any of its industries which are subject to unjust discrimination with respect to tariffs imposed on the same commodities imported from other countries.

The adoption of a policy of non-retaliation might lead quite naturally to the ultimate solution of the tariff problem which, undoubtedly, is to be found in the negotiation of special trade treaties, either between nations or through a centralized agency made up of the nations of the world, based upon the principle of equality of treatment. The impossibility of establishing reliable comparative values at present and international political complication, however, require the postponement of that method of solution until world conditions have become sufficiently stabilized to permit analysis. Confronted with such a situation and facing a deficit larger than the total pre-war federal budget, the interests of the nation at large seem to lead to a tariff designed primarily to provide revenue, and to aid rather than hinder its foreign trade.

Good-Will and Economic-Blockade

THE NEED FOR A PROCEDURE OF BUDGETARY CONTROL TO MAKE STRONG LEADERSHIP CONSISTENT WITH PREVAILING IDEALS OF JUSTICE—
AN ESSENTIAL TO EFFICIENCY

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THE problem of democracy is to find the institutional means of reconciling efficiency with popular concepts of justice—efficiency for group achievement with justice in sharing the benefits. Efficiency demands strong executive leadership. Justice demands an institutional means of appeal to group conscience. The demand for reconciliation has given us the most fundamental tenet of the world's prevailing political faith—the principle of popular sovereignty.

The mechanics of democracy have now developed to a point where the chief interest centers in a device adapted to making popular control effective without interfering with efficiency. The principle has long been known and used—that of “economic-blockade”—but the institutional means have been at fault. It has been with a view to making this principle effective that budgets and budget procedures have been and are now being devised.

Food for thought may be gathered from Emil Faguet's much read volume, the English translation of which bears the opprobrious title “The Cult of Incompetence”—opprobrious in that it is used as a paraphrase for “democracy.”

“THE CULT OF INCOMPETENCE”

Introducing his essay with Montesquieu's generalization that the controlling spirit of monarchy is *honor*, of

despotism *fear* and of republics *virtue* or *patriotism*, but that each may fail by having too much, Faguet lays down the proposition initially that democracy is rendered incompetent by too much of what the people conceive to be virtue—by reason of conceptions that are essentially democratic but in the nature of things opposed to efficiency.

Starting from these general ideas [those of Montesquieu] I have wondered what principle democrats have adopted for the form of government which they favor [*i.e.* the principle underlying our constitutions]. And it has not required great effort on my part to arrive at the conclusion that the principle in question is the worship and cultivation, or, briefly, the “Cult” of incompetence or inefficiency. (p. 14.)

Faguet's argument in support of this proposition is that the morality of democracy is unsound, and by reason of this it is incapable of or rather unwilling to permit the development of the institutional agencies that are effective.

Because this assumption is not uncommon nowadays, it is worth while to review the evidence and the argument made use of to convince the reader. A careful perusal of the text discloses that the evidence relied on is a miscellaneous assortment of historic happenings, which he sums up in the sentence: “It is intellectual incompetence and moral incompetence which is sought instinctively in the people's choice.”

If possible it is more than this. The people favor incompetence, not only because it looks on moral competence from the wrong point of view, but because it desires before everything, as indeed is very natural, that its representatives should resemble itself.

So far as logic is relied on in his appeal to reason, his syllogism is this:

First Premise (assumed, not stated): The purpose of political organization being to enable its membership to avail itself of the benefits of coöperation—the competence of a group to achieve its objectives depends on: (1) a *sound morality*—a morality which will prove effective as a bond of union, and (2) *specialization*—an arrangement of the personnel through organization suited to the allotment of tasks to persons especially qualified by training and experience.

Second Premise (to establish which the volume was written): The “Cult” of democracy is opposed to both: *The morality of democracy is unsound*; its bond of union *prevents specialization*—operates to eliminate the competent from the public service.

Conclusion: Democracy, “The Cult of Incompetence!” Democracy unfit to survive!

The philosophy of democracy is “unsound,” he tells us, because “high morality is imputed to those who share the dominant passions of the people”; and in representative government “the people desire . . . that the representatives should resemble itself.”

In organizing the public service, the people fail to provide themselves with the institutional means for making co-operation effective because “first and last, democracy . . . wishes to do everything itself.” And when “forced by historic events and perhaps by necessity to govern by delegates” then by the same token “the representative government wishes to do everything itself.” Democracy excludes compe-

tent persons from service and in its institution building refuses to provide for “specialization” not alone because it “imputes high morality to those who share the dominant passions of the people,” but

In addition to this sentimental reason, is another, which is extremely important, for it goes to the very root of the democratic idea. What is the people’s one desire when once it has been bitten by the democratic tarantula? It is that all men should be equal. . . . Democracy is thus led . . . irresistibly, one may say, to exclude the competent.

This thesis so ably maintained is important not alone by reason of the reception given to Faguet’s indictment but because it seems to justify an attitude and practices that have been opposed to the successful working of democratic government from the earliest times—an attitude and practices that are responsible for the very happenings pointed to by democracy’s critics to prove its shortcomings.

THE FALLACY OF FAGUET’S REASONING

Faguet’s *first fallacy* is found in the falseness of the assumption, that it is “unsound” to impute “high morality . . . to those who share the dominant passions of the people.” What are these dominant passions? The controlling emotion among all peoples at all times has been what they are pleased to call “justice.” These “dominant passions” have had their rise in moral sensibilities. Seer, prophet, poet, artist, in word, color and song, have interpreted them, and found sympathetic response; and the harmonies of feeling thus aroused have been the ties that have held when all else has failed. The strongest bond that associate groups have known is the common impulse to strive for the right and to unite in opposition to that which is thought to be socially wrong. The sentiments

which we recognize as group conscience and which find expression in common phrase as ideals have proved to be the only sure foundation upon which great coöperative institutions may be built. It is insistence on these ideals and standards for judgment that is characterized as the unsound morality of democracy—insistence on the point that those who are entrusted with the exercise of powers shall be inspirited with a desire to serve and that in service they shall exemplify that high idealism which, impersonated, the people bow down before and worship as their God. This is the morality that Faguet finds it necessary to challenge in order to establish his conclusion.

His *second* fallacy is found in reliance on a false interpretation of history—his unsupportable fact-conclusion that democracy is opposed to high “specialization” and that, by reason of adherence to the ideal of equality, competent persons are excluded from public service. The very opposite is true: In response to the impulses and demands of democratic constituencies for service, the amoebic type of institution (the type in which the king was law-giver, judge and executive) has passed out; and in its place democratic governments have grown to be the most complex, the most highly specialized of all political organisms. And the further fact is to be noted that instead of the “cult” as such putting a premium on mediocrity, the greatest leaders of modern time have grown up in the service of democracy. It is true that men of commanding ability have been exiled; but not for the reasons assigned. Demagogues have found their way into public favor, but not because the people prefer demagogues; rather because those who were opposed to democratic ideals in practice have perverted the institutional means designed to protect the people against demagogues.

We come now to Faguet’s conclusion that democracy is essentially a “cult of incompetence” and is unfit to survive: Not only has he failed to establish it by reasoning process that such should be the case, but the empirical judgment of history is that the conclusion is false. History tells us that out of the heroic struggles within and between politically organized groups, the very ones whose institutional right to exist is questioned have been the ones that have risen triumphant. The monarchies, the aristocracies, the oligarchies, and all of the political rubrics established on the “isms” of class morality and class privilege have gone down. They have not only been “weighed in the balance and found wanting,” but they have been cast off by society while democracy has been embraced.

ESSENTIALS OF COÖPERATION

This brings us to these positive assertions—the preaching of this essay: That the essentials of effective coöperation are: (1) strong executive leadership, and (2) good-will of the coöoperating membership; and that democracy as a cult recognizes these as essentials and seeks institutionally to provide for them. From which, if conceded, the conclusion follows that, insofar as there has been incompetence or inefficiency (and we all can find much of it), this has been due to failure to provide an institutional means adapted to the realization of ideals or to the subversion or impairment of the institutional means of achievement already established.

As opposed to the view expressed by Faguet, it is asserted that democracy is a cult upon which may be erected a polity capable of developing the highest efficiency. In this lies the strength of democracy. Recognizing that the purpose of political association is to enable citizens to avail themselves of

the benefits of coöperation, recognizing that coöperation is made possible only through leadership and good-will, let us stop a moment for reflection. Does democracy provide for both? Is good-will necessary to strong leadership? And is the morality of democracy such as makes for good-will?

LEADERSHIP AND GOOD-WILL

Can any other conclusion be drawn than this: That democracy stands out above all others as the cult of good-will? What is this cult? It can be summed up in four words: "Service," "liberty," "equality," "brotherhood." In the meaning of these four words are wrapped up the ideals that form the basis of the social ethics of democracy. The most fundamental of all is "service." This is the basis of all of the world's highest idealism. In its widest application it is the very soul of patriotism—it is the standard in the weights and measures used by democracy for all its individual and group valuations. Present-day interpretation compels a morality that carries with it the notion that, on the day of judgment and at all times when choice is to be made, service to one's fellows must stand above self. When applied to the whole group, the moral concept "service" is expressed in terms of "brotherhood."

"Service" speaks in terms of *duty*. In order that this concept may have an appeal binding on the conscience, however, there must be a class vision of corresponding *rights*. A common consciousness of right which we call "justice," therefore, asserts that the politically organized community shall be "free,"—this freedom being conditioned only by the concept of "equality." Under conditions of inequality, enforced through institutional restraint, "liberty" was first given a negative meaning. But with slavery abolished,

the concept of liberty is interpreted as "the right of self-determination," and thus is given an unselfish significance. By "the right of self-determination" is meant the right of the individual to choose what service he shall undertake to render to the group—the right of each member to choose his own career and make the most of it so long as he chooses to do something that is serviceable. Thus the only restriction to be placed on the individual is the broader right of society—a concession to good-will—the right of the group to decide what is serviceable and what is not. The only restriction imposed on the individual is that he shall gain his liberty through the service gate: that he shall gain his freedom, economic and spiritual, by service to others.

Thus, adopting this view of liberty, only those who are not social-minded are not free. Democracy sets up no barriers to self-determination except against those who claim for themselves privileges which are not accorded to others, or who assume that their own judgment of right, warped as it must be by self-interest, is superior to the group conscience. As against this holier-than-thou attitude, democracy weaves into its moral fabric its ideal of equality—that each shall have an equal right of self-expression, an equal right to appeal to the group conscience, and an equal opportunity to achieve success in whatever specialized field of service to his fellows he may choose.

IDEALS OF DEMOCRACY

It is clear also that this fundamental morality in the interest of establishing and maintaining good-will carries to all the institutional organs and agencies of democracy—to its leaderships and its followings, to the individual members and to "the people" as a political aggregate. Making practical application of this concept of social justice to every-

day affairs, democracy insists that the associate group "the people," shall have the right by well-considered majority opinion to decide not only what is serviceable and what is not, but also what services shall be left to individual initiative—and also what services shall be rendered by its common agency, the government. Having decided that certain services can best be rendered by its common service organ, the government, it insists that society served shall determine what shall be performed by national, state and local agencies, and how each shall be organized.

And with respect to that broad domain left to private initiative, it insists that it is for society to decide what may be performed by corporate and what by non-corporate agencies—whether eleemosynary or those engaged in profit-taking; what shall be regulated as public utilities; what shall be left to private competition made effective through bargaining; what services left to private bargaining shall have professional and technical qualifications prescribed to insure efficiency; what shall be regulated in order to protect health and provide for safety; what provision shall be made to prevent profiteering through capitalistic monopoly and control; what shall be the content and qualifications given to individual property rights and trusteeship.

In fact, every institution and agency of coöperation, whether private or public, must come within the rule of serviceability—all private arrangements, and all the agencies developed must gain their status and come under the rule of democratic justice; a rule of justice which, being established by the people, leaves no social reason for ill-will—provided it leaves to each individual the institutional means of appeal to the consciousness of right and

wrong in the community. Therefore, whatever is the judgment of the group fairly arrived at, there is no cause for ill-will.

ORGANIZATION FOR EFFICIENCY

Further observation is to be made that democracy in its institutions has adopted the only polity that provides for establishing and maintaining goodwill. This is the meaning of the "folk-mote" and the representative system. Adopting the principle of popular sovereignty as a means of giving expression to the right of "the people" to rule, it has been necessary to develop in the body politic organs of *volition* as well as organs of *action*; and democracy has developed specialized organs of popular perception, resolution and control as distinguished from those for service. To this end democracy has recognized the fact that an associate group can not think, can not find out what its feelings are, can not have a common opinion or a common will without leadership; and so democracy has developed in its institutions:

(1) Organs for leadership in deliberation, criticism and discussion—reaching out for group consciousness of right or justice.

(2) Organs for leadership and discipline in coöperate action—reaching out for achieving objectives through team-work.

As in the human body, the organs for deliberation must be independent of the organs of motorization—both being subservient to the will. And as a means of making popular sovereignty—the will of the people—effective without detracting from the strength of leadership or interfering with the discipline and teamwork relied on for efficiency in action, democracy has undertaken to inhibit all interference with the *doers* on the part of the *determiners* except to approve or dis-

approve of the objectives with respect to which power is to be developed and used. Thus the deliberative and the executive branches are made independent of each other. To the executive is given all powers of action; to the deliberative branch control over supplies and to put into the hands of the *determiners* control over supplies—control over the purse. It has been the confusion of these two functions that has led to incompetence.¹

ECONOMIC CONTROL

It is quite apparent that the representative, deliberative, determining organ of conscience in the body politic could not control those to whom have been entrusted the direction and use of its organized and disciplined forces (military and civil) in any other manner than that of "economic-blockade" without upsetting the whole institutional arrangement and destroying

¹ In support of the allegation that this "cult" of democracy has driven the most competent as leaders out of public service, Faguet tells us that men of commanding ability have no alternative other than to engage their talents in private business. What do we find in the services thus provided for by society to make them attractive to leaders who are not attracted to service in the government? What do we find in the conception and morality of these private undertakings that makes them different? We find that all the sizable private undertakings are membership bodies—partnerships or corporations; that corporations in organic acts provide for "specialization" while partnerships are "non-specialized" brotherhoods; that in corporations which are held up as having reached a high mark of efficiency, the leaders are chosen by the members; that in form these corporations provide the same organs for membership control and for action as do those established by the people for common service without profit. Their differences lie: (1) in the qualifications for membership—membership which in private corporations is limited to a dollar aristocracy; and (2) in the selfish inducement held out to the "members" and managers by way of "profits," giving them a right to speculate in the services of others thus drawing a line in right and opportunity, between "capital" and "labor." By giving control to those

the good-will of the members. The effectiveness of this form of "moral suasion" finds illustration in the World War. This was the weapon which the Allies sought to use against the organized Central Powers. But in order to make its "economic-blockade" successful, it was necessary to control all of the shipping of the world—the international carriers of supplies.

The device resorted to as a means of accomplishing this end without taking over the ships themselves or interfering with the discipline of a single one of the ships' crews was to set up a representative "allied council," that sat at London, to control "the bunker privilege." This council was given control over all of the coal-bunkers and other stations where ocean-going vessels could get supplies. Then this "council" issued an order to the effect that before any master would be given the privilege to coal and take on other needed supplies he must give satisfactory account of his last trip and explain his plan and purpose for the next one. If he could do this in such

associates commonly called "capitalists" and permitting their "manager" to buy the services rendered to society by "labor" at the lowest possible cost, then to sell the product at the highest price obtainable—there is a constant inducement to exploit both, the laboree and the public. The result has not been whole-souled coöperation, but "strife." At best coöperation has been only half-hearted, for the first fruit of this kind of traffic has been loss of the good-will.

And how has this loss of the good-will of the workers, and not infrequently of the public, affected the success of those large privately conducted services? Have they been outstanding successes? Some of them have succeeded in gaining large profits for their leaders and for the dollar aristocracy that was given the standing of "members." But in the long run most of them have gone the way of the political oligarchies and aristocracies that left out of account the need for the continuing good-will of the whole coöperating group.

Not only has their record been one of high institutional mortality, but we find that, however

a manner as to retain the good-will of the "council," well and good. He would have appropriated to him, and was "privileged" to draw, the necessary supplies. But if he could not, if he failed to obtain or retain the good-will of the "council" he had nothing to do but resign or tie up the ship. For lack of supplies the company could not move the ship until a captain was put in charge, in whom the "council" had confidence.

PROCEDURE OF ENFORCEMENT OF "ECONOMIC-BLOCKADE"

The instrument designed for making control over "economic-blockade", effective in the hands of the representative appropriating branch of modern democratic governments is known as a budget. And the procedure used is what has come to be known as budget procedure. The essentials of a budget procedure adapted to making control over executive leadership and action effective are:

(1) That the executive (the one who

able one or another leader may have been, the cost and waste of this type of autocratic organization in business has been far greater than the cost and waste of all the wars for democracy, plus the entire costs (not to say waste) of both military and civil establishment. Instead of working for the conservation of material and human resources, the losses to "capital" alone have been little short of the most wasteful of all political undertakings. For example, the losses to "capital" due to business "reverses" in the period immediately following the Civil War were greater than the cost of the war. Consider also that most of the military struggles have been provoked by this feudal rivalry. Consider also that the loss and waste to the "non-members," (the workers) has far exceeded the losses to the dollar aristocracy.

It may be urged that the losses to "capital" were not a social loss, because the bankruptcies and reorganizations did not destroy natural resources, plants and tools. But the loss to the workers from shut-downs, dislocations and the other upsetting circumstances of business feuds and misadventures resulting in unemployment

is to be held accountable for execution of the plan, the one whose action is to be controlled) must be the one to prepare, explain and defend the budget to the members of the appropriating body.

(2) That this explanation and the inquiry, criticism and discussion relating to it, shall be in sight and hearing of all those who are to vote on the question of supplies.

(3) That the appropriating body shall withhold support until a majority of the membership and the executive can reach an agreement as to what course shall be taken.

(4) That in case an agreement can not be reached between the executive leader and a majority of the appropriating body, provision must be made for appeal to the people on the questions or issues involved.

The first three of these requirements are essential to the effectiveness of any form of "economic-blockade"—the intelligent use of control over the purse by a body or council independent

has been a social loss. The loss in working force due to lack of good-will, the cost of the human turnover, inanition, disloyalty, opposition to discipline and sabotage in industries managed on a basis which has ignored good-will, can not be estimated. And what have been the social results of this kind of organization and leadership? Sixty-five per cent of all the wealth is in the hands of two per cent of the people. Only thirty-three per cent of the people have a ratable share and these are largely farmers. Sixty-five million people in this the most productive of all countries are within a few days of the bread-lines.

These are the results that give color to appeal for justice which upset the morale of industry, and cause men to lose faith not alone in "capital" but in the private institutions as well. There is nothing in the public institutions commended on favorably by Faguet and others, to carry conviction that they are to be patterned after in our out-reaching for efficiency. And the more forward-looking industrial managers are coming to recognize the need for adopting, in the interest of industrial co-operation, the morality, the ideals and even the methods of democratic control as a means of conserving good-will.

of the executive; the fourth requisite is necessary to a democracy, because it is only through the operation of such a principle that the controlling process can reach to and secure the good-will of the people. Anything short of this must result in the domination of the government by an irresponsible oligarchy. The loss of good-will that has obtained in democratic states, the official incompetence and the inefficiency that have crept into their governments have been due to failure to adhere to these principles of constitution-making, failure to provide for procedures necessary to making economic control over executive leadership effective.

OBJECTIVE: GOOD-WILL

In France, instead of making the prime minister responsible for preparing, explaining and defending the service program which he is called upon to administer and for which supplies are asked, this is taken over by a "budget commission" made up of members of the appropriating body who had been selected by lot. The effect of this has been to shift responsibility for leadership and to confuse the functions of review, criticism and deliberation on moral questions with those of action; it impairs discipline and interferes with efficiency, causing "budget-making" to be a matter of patronage; furthermore, it operates to deprive the people and their representatives of the knowledge necessary to the intelligent exercise of popular control.

In England under Gladstone, a method was worked out suited to the effective dramatization of the work and program of the government for which support was asked (a procedure adapted to conserving the good-will of the nation); but "party" organization and, since 1914, the "coalition" has rendered this procedure ineffective. In Canada,

the critical faculties of the dominion parliament and the critical faculties of the several provincial parliaments have been taken over and subordinated to the executive whose action and proposals are to be brought under review.

In the United States, executive leadership has been made subservient to "standing committees" which in turn have been controlled by "leaders" who have no place or responsibility in either branch of the government. The controlling body itself in order to protect its own "invisible" and "irresponsible" leaderships, has refused the executive the right to come before it while sitting as a reviewing and appropriating body. All the service plans and expenditures have been secret arrangements. And now under the guise and name of a "budget procedure," it is proposed, and it seems probable that measures will be passed by the next congress, to give legal sanction and increased power to the chairman of these "standing committees" by constituting them a "super-committee," an arrangement which can have no other effect than to make "invisible" and "irresponsible" leadership in the government more powerful and offensive to the people than ever before. So long as this system prevails, the voice of the electorate will be no more effective or constructive than a voice of protest; the prevailing spirit of the people must be that of ill-will.

CONCLUSION

The principle of "economic-blockade" is not an invention of democracy. It has been the institutional method of control-without-violence from the beginning of time. It has been the principle through which paternalism (both benevolent and malevolent) has operated and is still operating to maintain its leadership. It has been to establish an economic-blockade, which

would prove effective for the ends and purposes of the dominant leadership, that wars and industrial strife have been carried on. The contribution of democracy to the world's progress has been to provide the machinery whereby leadership may be made subservient to prevailing concepts of justice; and, in the institutional outreachings of democracy through its experiences to achieve this purpose, it has asserted and sought to gain the right of economic-blockade. Therefore, the instrumentalities through which society has insisted that this right shall be exercised have been its institutions for justice; its institutions for the arbitration of controversies between persons and groups with the conscience of the nation as arbiter; its courts and its representative assemblies to which have been given the right to control the wealth and resources of the whole political society and its members.

But to make these establishments effective for justice it has been found necessary: (1) to bring the leaders (the ones whose *acts* or *proposals* are made the subject of review) before the court in order that they may be confronted by their critics and accusers; (2) to provide for a fair trial based on *evidence* and not on gossip or rumor or *ex parte* statements and appeals; (3) to have these proceedings conducted in the open so that the whole associate membership can "listen in." "Star Chamber" trials, or decisions reached by "diplomacy" or other secret methods, can have but one purpose: to use the machinery of "economic-blockade" for selfish, non-social ends—a perversion of the institution set up in the name of justice in the interest of "patronage" and "spoils."

The political and social unrest of today, the want of confidence in leadership, the waste and inefficiency in both public and private service, the

questioning of ideals and institutions—all these are the results of methods employed to defeat the ends and purposes of democracy. Out of "secret diplomacy" and "closed-door" methods of deciding questions of public policy by negotiation and agreement between members of "committees" who assume that they are more competent to decide what is best than are the members of a representative body commissioned by "the people" after full hearing and fair trial—out of these methods comes ill-will; for when associate groups lose confidence in their leaders, no international means is provided for the transfer of power to others whom they trust and there is only one thing that can be expected, *viz.*, that everything possible will be done to undermine the authority of those who are in power. All this makes for inefficiency and waste—the waste of loss of discipline, loss of sabotage, revolution—which could be obviated by providing the conditions favorable to effective coöperation. Unless and until methods of control are provided whereby those who are distrusted may be forced to retire in favor of leaders who are trusted, the people will not consent to any arrangement which makes for increased competence, and political action can not have a constructive objective.

Conversely, when provision is made for executive leadership in planning as well as in the execution of plans by those who are trusted, there are no powers which people will withhold—constitution or no constitution, law or no law. With the objective to be gained clearly in mind and approved, with the good-will of the whole membership of the associate group back of its leadership for achievement, every institutional and physical obstacle will be set aside in the interest of efficiency.

These are the considerations which

society must weigh in the exercise of choice between institutional alternatives for control over executive leadership, *via* "economic-blockade"—whether applied to programs of national welfare or international alliance and defense: Are the methods and procedures proposed, or in use, adapted to the maintenance of the *Sovereignty of Good-Will?* Are they adapted at once to the development of the strongest, most able leadership for achievement that can be found, which can be trusted—leadership which in the interest of

efficiency is endowed with all power except that of control over supplies? The further development of the mechanisms of democracy must be with a view to the utilization of strong executive leadership, at all times, making it consistent with the maintenance of good-will by a procedure of economic control, the effect of which will be to enable the people to transfer the scepter of power from one strong leader to another without loss of institutional momentum or impairment of efficiency.

Budget Making in Philadelphia—Its New Provisions and Operation

By WRIGHT HOFFMAN

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ON June 25, 1919 a new charter for the city of Philadelphia was approved by the State Legislature. Among the provisions included were important changes in budgetary procedure. Prior to that time both the preparation and the final enactment of the budget were in practice, carried out by Councils, and as such would commonly be classified as a legislative budget. Under the provisions of the new charter, the powers of the Mayor have been enlarged and, in its preparation, at least, the financial program, as now provided for, is an executive budget. Though sufficient time has not elapsed for a thorough test, a comparison of the practice thus far with the provisions may prove of interest.

First with regard to the requirements of the law. On or before October fifteenth of each year the Mayor is required to prepare and submit to Council the budget for the following year. This estimate must contain:—

1. A statement of estimated receipts for the following year, including money that it is proposed to borrow.

2. A statement of liabilities of every kind for the ensuing year designating which are to be met from current receipts and which from loan funds.

3. A statement of estimated expenditures for the following year of "all departments, officers, boards, commissions, trusts, committees, or other agencies" whose financial requirements are to be met from either current receipts or loan funds over which Council has control.

4. A statement of the borrowing capacity of the city.

The first, second and fourth statements above are furnished to the Mayor by the City Controller. The statement of estimated expenditures must be made up by the Mayor from the estimates supplied him by the various departments, boards, etc., and can be revised by the Mayor as he sees fit. It is further provided that the form of the Mayor's estimate as submitted to Council shall be as Council may determine.

For the consideration of the Mayor's estimate, Council has until December fifteenth, or two months. At the end of that time, they shall have passed, in one appropriation ordinance, the financial program for the following year, and shall have fixed the tax rate. They may increase, decrease, insert or strike out any item in the budget as submitted by the Mayor. The budget must be considered by Council "in open session, affording a reasonable opportunity to officers and citizens to be heard thereon." After the enactment of the appropriation ordinance, it is returned to the Mayor for his signature. He may veto the entire bill or any items or parts of it, and the parts disapproved, if they are to become law, must be passed again by Council by a vote of three-fifths of all the members. The ordinance thus enacted, beginning January first following, becomes the financial program for that year. As in the estimate submitted by the Mayor, the appropriation ordinance must contain a statement of (1) liabilities of every kind, (2) estimated receipts from all sources, and (3) the amount and character of expenditures to be made by the various departments, boards, etc. Two further provisions should be noted: First, that the amount of expenditure for the year, other than from loan funds, must not exceed the estimated general fund receipts for the year; second, that appropriations for one department or board can not be used by another department. Council may, however, by ordinance, transfer any unencumbered balance at any time from one item of appropriation to another.

The above provisions regarding the budget went into effect with the adoption of the new charter in June 1919, but the other provisions of the charter did not become effective until January first following. Important

among these was a change in the legislative branch of the city government from a large bicameral body to a small single body—a council of twenty-one members. And, although the Mayor in the fall of 1919 prepared the budget estimate, the provisions for its consideration could not be effective until the latter reorganization took place. The year 1920 is, therefore, the only one in which the budget procedure has followed fully the new law.

Following the provisions of the act, the Mayor on October 13 of last year, submitted to Council a tentative budget together with a letter of transmittal. In the preparation of the estimate, all the boards, departments or other bodies of the city, whether under the control of the Mayor or not, whose financial requirements were to be met from general fund receipts, were required to submit their requests to the Mayor. The original requests made to him totaled \$74,556,651. As no public hearings were held in this preparatory work, the details of the reductions made by the Mayor are not available. Working on the belief, however, that the tax rate for the following year should not be increased, and, as the total of these estimates exceeded the revenues (estimated at the current rate) by fifteen million dollars, the Mayor asked the departments to reduce their requests and, through further pruning, the budget as finally submitted to Council was \$64,945,450. Of the \$9,611,201 thus reduced, the Mayor stated in his letter transmitting the budget to Council that \$9,504,817 or practically all of the reductions made were in the departments over which the Mayor exercises control. The charter provisions, however, give the Mayor the right to revise any or all of the requests, whether directly under his jurisdiction or not, although in the budget submitted he

did not apparently exercise that privilege in those departments not under his control. As submitted to Council, therefore, the budget was still five million dollars higher than the Mayor believed it ought to be. Suggesting in his letter of transmittal certain items which he thought should be cut down, the Mayor passed on to Council the task of final reductions which he should have assumed.

In taking up the consideration and final enactment of the budget by Council, the fact should not be overlooked that the task of really cutting the department estimates was left to that body. Though the charter clearly provides that the Mayor is to submit a budget which he thinks adequate for the following year, he did not meet these requirements in the budget which he submitted. The departmental requests had been reduced by the Mayor, but the reductions were, in the main, those added amounts which the departments expect to be cut down and which they provide for by submitting their estimates at a higher figure than they expect to have accepted. Council agreed with the Mayor that the estimates should be reduced enough to come within the limit of the tax rate. The task of carefully weighing the requests of one department with those of another, the reduction of some items and the increase of others, the task of working out a well-balanced financial program for the following year, which is the all-important part of a budget and which should have been done by the Mayor, was left to Council.

In the graph shown, the reductions which Council made in the Mayor's estimates have been plotted. As the appropriation ordinance (that is, the final budget as passed by Council) followed closely the classification of the Mayor's budget, it was possible to

make the comparison by items of expenditure. Dividing them into appropriations for personal services (i. e., temporary as well as regular employes) and items other than personal services, the reductions in percentages in each department, board or agency are shown. The departments, in turn, have been arranged into two groups—namely, those under the control of the Mayor, and those not under his control, to show the percentage reduction in each case. The final totals show the change in all departments. Included in the amounts asked for and the amounts appropriated for each department or unit are the corresponding requests and apportionments made through the Purchasing Agent, and hence, the percentage change in each case shows the total change made, that is, the change in department estimates plus the change made in requests through the Purchasing Agent where such requests were made. The totals thus obtained for all departments were as shown in table on page 240.

It will be noted that the items other than personal services in departments not under the Mayor, instead of being reduced, were increased. This is due to an item included in the appropriation for the City Treasurer of \$1,373,307 for "additional compensation to employes of city and county departments and other employes paid from the city treasury for the year 1921." Though in character a purely personal service item, it was entered in the appropriation ordinance as a non-personal service item. When this item is included as a part of the personal service totals, the percentages are then altered as follows:

Items other than personal services in departments not under the Mayor were reduced 4.9 per cent instead of increased 3.3 per cent.

Items other than personal services in all departments were reduced 12.3 per cent instead of 8.5 per cent.

Items of personal services in all departments were reduced 3.9 per cent instead of 8.8 per cent.

This is more truly representative of the percentage reduction made for the year. The largest reductions made then were not in the items of personal services,—salaries and wages,—but principally in non-personal service items. This is of course to be expected since a great many of the salaries of

fare 16%, embracing some of the most constructive city activities.

In its operation during the first year the budget has not fully met the requirements and spirit of the new law. The Mayor, to have fulfilled the requirements of the charter should have prepared the budget and submitted it to Council as he thought it should be passed. Instead he turned over to Council an estimate which he was not prepared to defend and left to that body the task of making the reductions. In the consideration of the budget by

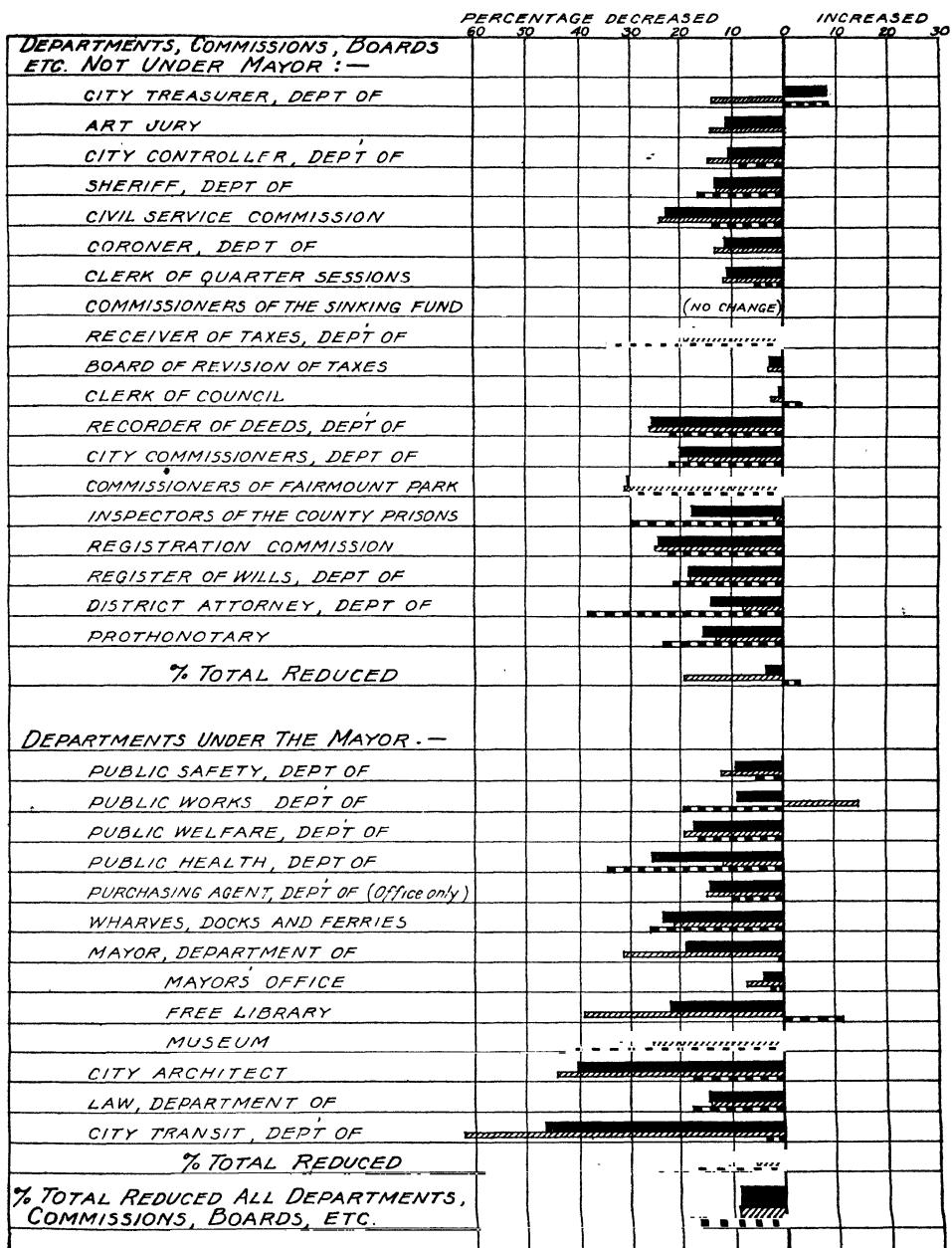
	<i>Submitted by Mayor</i>	<i>Passed by Council</i>	<i>Amount Changed</i>	<i>% Changed</i>
<i>Personal Services:</i>				
Depts. not under Mayor.....	\$6,897,354	\$5,573,476	-\$1,323,878	-19.2
Depts. under Mayor.....	20,759,452	19,640,869	-1,118,583	-5.4
Total, all Depts., etc.....	27,656,806	25,214,345	-2,442,461	-8.8
<i>Items other than Personal Services:</i>				
Depts. not under Mayor.....	\$16,712,527	\$17,267,989	+\$555,463	+3.3
Depts. under Mayor.....	20,576,112	16,821,975	-3,754,137	-18.2
Total, all Depts., etc.....	37,988,639	34,089,964	-3,198,675	-8.5
<i>All items:</i>				
Depts. not under Mayor.....	\$23,609,881	\$22,841,465	-\$768,416	-3.2
Depts. under Mayor.....	41,335,564	36,462,844	-4,872,720	-11.8
Total, all Depts., etc.....	64,945,445	59,304,309	-5,641,136	-8.7

those departments not under the Mayor are fixed by Act of the State Assembly and the others are difficult to reduce. It should be observed that in the changes made in the items other than personal services the reductions in the departments under the Mayor were four times as large as those not under the Mayor. This is particularly significant when it is recalled that, of the reductions originally made by the Mayor before submitting the budget to Council, practically all were in the departments over which he has control. Of the reductions made in the items other than personal services the outstanding ones in the Mayor's departments were: Wharves, Docks and Ferries 26%, Museums 42%, Public Health 34%, Public Works 19%, Public Wel-

Council, the estimates of all the departments were weighed. Department heads were summoned and questioned. The hearings were carried on by the entire Council and all were open to the public. The budget as considered and enacted is entirely a reflection of the work of Council.

Also, to more fully meet the requirements of the law a greater measure of control will have to be obtained over those departments which are not at present under the Mayor. The trouble here lies in the fact that the functions of government of Philadelphia are divided between the city and county. Though the city and county of Philadelphia are geographically coterminous they are not a unit politically. Many of the county offices

CHANGES IN MAYORS' BUDGET BY COUNCIL FOR YEAR 1921



% TOTAL ESTIMATE REDUCED
 % PERSONAL SERVICES REDUCED
 % OTHER THAN PERSONAL SERVICES REDUCED.

are retained, they are elective positions, and in their operation are not in any way subject to the supervision of the Mayor. A list of these offices, boards, etc., which are not under the Mayor is shown in the chart. The new charter provisions require that they make their requests for appropriations to the Mayor and it is further provided that these requests are "subject to revision by the Mayor in his discretion." But he has no means whatever of finding

out the real needs of these departments and hence no basis for a careful judgment in making a revision. An executive budget as the new charter contemplates is impossible without executive control. And until some unification of county and city offices is obtained a well-balanced financial program can not be secured. On the whole, however, the first year under the new provisions showed an important advance over previous years.

Administrative Reorganization in the Federal Government

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EXTRAVAGANCE has long been a chronic ailment of the Government of the United States. Ever since Jeffersonian simplicity gave way to the Jacksonian spoils system, it has manifested all the symptoms of a constitutional complaint. In general, it has entailed no great drain on the national resources. Indeed, during the eighteen-eighties the politicians at Washington seemed more disturbed by a series of recurrent surpluses than they ever had been by deficits, and plunged into an orgy of river-and-harbor and pension legislation far exceeding any previous fiscal dissipations in the history of the Federal Government. Prior to the World War, governmental extravagance was a discreditable, but by no means an intolerable, burden. Now, however, the necessity for economy is urgent and the pains of extravagance are acute.

Administrative reorganization in any government may be advocated on two grounds, economy and efficiency. Administrative reorganization in the Federal Government has been advocated

on the latter ground for many years. President Roosevelt made a beginning by the appointment of the Keep Commission with a view to the improvement of administrative methods in the departments. President Taft was deeply interested in the matter and gave a great impetus to the cause of administrative efficiency throughout the Union by the creation of the Cleveland Commission on Economy and Efficiency. How great this impetus was is revealed in the comprehensive study by the Institute for Government Research, entitled *Organized Efforts for the Improvement of Methods of Administration in the United States*. The efficiency movement of the last decade has accomplished substantial results in the state and local governments. Until the close of the war, comparatively little had been accomplished in the Federal Government. Now the need for economy has supplied a more powerful incentive for administrative reorganization than the want of efficiency ever did.

DISTRIBUTION OF BUREAUS

The advocates of administrative reorganization generally begin with a reclassification of governmental activities and a redistribution of the corresponding administrative agencies between the several executive departments. It must be granted at once that the existing distribution of the administrative bureaus between the executive departments is utterly illogical. We have, for example, a Navy Department which is charged with the maintenance of extensive facilities for the operation of vessels on the high seas, and their construction and repair. Yet five years ago the War Department had a greater number of vessels afloat than the navy had, and lesser fleets were maintained by the Treasury Department and the Department of Commerce. The former operated the Coast Guard, originally the Revenue Cutter Service, while the latter operated two fleets, one under the Light-house Service, another under the Coast and Geodetic Survey. Now the Shipping Board has a greater fleet than all the others combined. Many other instances may be cited of different departments engaged in similar activities.

Likewise many instances may be cited where the same activity may be claimed on logical grounds by different agencies. Should the Americanization of immigrants, for example, be assigned to the Bureau of Naturalization in the Department of Labor on the ground that the immigrants are aliens, or to the Bureau of Education in the Department of the Interior, on the ground that Americanization is an educational process? Should chemical researches be prosecuted in order to foster the development of a domestic dyestuffs industry by the Bureau of Mines of the Department of the Interior on the ground that the intermediates from

which the dyes must be made are by-products of the coal mines; or to the Bureau of Standards of the Department of Commerce on the ground that the manufacture of coal tar dyes is intimately connected with the standardization of colors; or to the Tariff Commission on the ground that it is interested in determining the need for protection; or to the Bureau of Chemistry of the Department of Agriculture on the ground that it has a well-equipped chemical laboratory and a staff of skilled chemists? Should the protection of the interests of the growers of cotton or grain for export be entrusted to the Bureau of Markets of the Department of Agriculture on the ground that it is charged with the protection of the interests of farmers; or to the Bureau of Foreign and Domestic Commerce of the Department of Commerce on the ground that it is charged with the protection of the interests of exporters? Should the investigation of the conditions of health in rural schools be committed to the Public Health Service of the Treasury Department on the ground that it is a question of health; or to the Bureau of Education in the Department of the Interior on the ground that is a question of education; or to the States Relations Service of the Department of Agriculture on the ground that it is a matter of country life; or to the Children's Bureau because it is a question of children?

No one of these alternatives is more fantastic than the solutions that have been found for other problems of a similar character. The enforcement of the eighteenth amendment was assigned to the Bureau of Internal Revenue because that bureau already possessed a corps of agents employed in running down moonshiners and other violators of the federal excise laws. The enforcement of the child labor law

was nearly committed to the same agency because, to avoid constitutional limitations upon the legislative authority of Congress, the federal child labor law was ultimately enacted in the form of a revenue measure. The insurance of soldiers and sailors against the risk of death during the war was assigned to the Treasury Department, because that department had recently established a War Risk Insurance Bureau to insure American ship owners and mariners against the risks of navigation in the field of belligerent operations while the United States was still a neutral country, although the Pension Office in the Department of the Interior possessed a long-established organization for making payments to the veterans of our earlier wars and to their dependents. The payment of allotments and allowances to dependents of men in the national army was assigned to the same bureau, although the War Department had long been making similar payments to dependents of men in the regular army. The award of compensation to the injured was also assigned to the same bureau, although the United States Employes Compensation Commission had already been created to perform a similar service for those injured in the course of civilian employment. The tangle of authority between the War Risk Insurance Bureau and the Public Health Service and Federal Board for Vocational Education over the rehabilitation of the injured is such a recent and painful experience that the need for administrative reorganization in that field need not be argued.

The consequences of such an illogical organization of administrative agencies are not far to seek. It leads to conflicts of authority between the heads of competing agencies, duplication of work, lack of coöperation between those in charge of related activities,

and the erroneous assignment of new undertakings. It checks initiative on the part of the less favored bureau chiefs, and encourages extravagance on the part of those who are more fortunate or aggressive. It impedes the standardization of administrative methods and practices, confuses the government accounts, and renders obscure the published statements of public expenditures. These are the principal items in support of the general charge that the present system is neither economical nor efficient.

Former Assistant Secretary of the Navy, Franklin D. Roosevelt, when a candidate for the Vice-Presidency, devoted much of his attention on the stump to the need for administrative reorganization in the Federal Government. One of his favorite illustrations of the absurdity of present conditions was the case of the bears in Alaska, which are under the protection of four different departments, War, Interior, Agriculture, and Commerce. Doubtless, however, the same bear is rarely entitled to protection by more than one department at a time, and probably under some circumstances it is more convenient for one department to afford protection than for another. The distribution of the work of protecting bears among four different departments is utterly illogical, if the principle of classification upon which governmental activities are to be classified is that of the nature of the service rendered, but it may not be illogical if a different principle of classification be adopted. Bears may be protected in different ways. Some methods of protection may be suitable for use by the War Department; others by the Department of Agriculture; others still by the Department of Commerce or of the Interior. In other words, before there can be any logical redistribution of administrative agencies among the

executive departments, there must be a logical classification of government activities. But a logical classification of activities implies agreement upon some principle of classification.

PRINCIPLES OF CLASSIFICATION

There are several possible principles of classification. In the first place, government activities may be classified in accordance with the class of persons benefited. Upon this principle all activities designed to benefit a particular class of persons would be placed in charge of the same administrative agency. Thus all activities designed for the benefit of children would be assigned to a children's bureau, and all those designed to benefit women to a women's bureau. It is plainly impracticable to assign all activities designed to benefit men to a men's bureau, but activities designed to benefit farmers could be assigned to the Department of Agriculture, merchants to the Department of Commerce, wage-earners to the Department of Labor, etc. The difficulty with this principle of classification is that the same individuals may appear in several classes, according as they are classified ethnologically, biologically, economically, socially, or politically. However, the Bureau of Indian Affairs acceptably serves the interests of Indians regardless of age, sex, occupation or social condition, the Bureau of Mines serves the coal mining interests, the Bureau of Fisheries, fishermen, the Forest Service, lumbermen, the Bureau of Standards, various kinds of manufacturers, etc. The advantage of this principle of classification, from the standpoint of the administrator, is that he knows to whom he must look for support, and can develop his activities in the direction that will bring the strongest backing to his agency. The success of the Department of Agriculture in

serving the interests of the farmers, and its corresponding strength in Congress, has enabled it to expand its services in many ways that would have been impossible, had the same services been entrusted to agencies organized upon any other principle. But departments organized to serve relatively weaker interests, like the Department of Commerce, find it much more difficult to secure the appropriations needed for the development of their activities.

Secondly, government activities may be classified in accordance with the nature of the service rendered. Upon this principle all activities of the same character would be placed in charge of the same administrative agency, regardless of the class of persons benefited. Thus all activities relating to education would be assigned to a bureau or department of education, all those relating to the public health to a public health service, whether the persons benefited were farmers, merchants, wage-earners, children, immigrants, Indians, or what not. Because of the difficulties encountered in attempting to reconcile this principle of classification with the first, there have been some strange organizations brought into being at Washington. The Federal Board for Vocational Education is the outstanding example of the results of these conflicting principles. It is composed of the Secretaries of Agriculture, Commerce, and Labor, together with the Commissioner of Education from the Department of the Interior, and three citizens appointed to represent respectively the farmers, employers and wage-earners. Even if no attempt is made to reconcile this principle with the first, it is difficult to apply it logically. The War Department, for example, was created to provide for the common defense and hence does not need to concern itself with any

particular class of people. But it has proved very difficult to define with any precision its proper range of activity. Actually it maintains a well-developed health service, a well-developed educational service, and a well-developed engineering service, together with a colonial service. The Post Office Department also maintains a wide variety of services which have grown out of the original service of transmitting the mails, such as parcel post, postal savings and the transmission of funds. This principle of organization is defective from the standpoint of the administrator, because it makes political support more uncertain. This is evidenced by the stunted growth of the Public Health Service and especially of the Bureau of Education.

Thirdly, government activities may be classified in accordance with the nature of the process by which they are carried on. This leads to what is often, though generally incorrectly, called a functional classification of administrative agencies. The Government Printing Office and the Bureau of Engraving and Printing are the best examples of agencies organized in accordance with this principle. Proposals have frequently been made for carrying this principle further, as by combining the various statistical offices or chemical laboratories that abound in Washington. But it cannot be carried much further. To combine all the corps of stenographers or typewriters, for example, would be a manifest absurdity, and the proposal to merge all the statistical offices or chemical laboratories is hardly less absurd.

Among pending proposals of this character the most promising is the one to create a department of public works which will bring together the various engineering services now scattered through several different departments. The Reclamation Service, for

example, was originally placed in the Department of the Interior, because the lands to be reclaimed were generally public lands already under the jurisdiction of that department. The Office of Public Roads was originally placed in the Department of Agriculture, because the roads to be improved by federal aid were generally rural roads whose improvement was of interest primarily to farmers. The Engineer Corps was originally placed in the War Department, because it was organized for the construction of military works and its personnel was recruited from officers of the army. The Supervising Architect's Office was originally placed in the Treasury Department, because the buildings to be designed were generally customs houses. The Federal Power Commission, created a year ago, was placed outside the jurisdiction of any single department, because the Departments of War, the Interior, and Agriculture were too jealous of one another to permit any one of them to secure exclusive jurisdiction over the subject. No doubt the bringing together of all these agencies under a single head would facilitate certain economies in the purchase of equipment and materials, and would be conducive to greater efficiency through the standardization of methods and regularization of work; but where each unit is so well-developed as to be able to operate under present conditions on a comparatively large scale, it may be surmised that these advantages are likely to be exaggerated.

It is evident that no general reorganization of administrative agencies upon any single principle of classification is practicable. Each of the three principles must be applied in the cases in which it is, on the whole, the most eligible; and such expedients must be adopted as prove most serviceable to adjust the conflicts of interest to

which the adoption of conflicting principles in different cases will inevitably lead. Certain expedients, however, are clearly better than others. "Makeshift" arrangements, as in the case of the Federal Board for Vocational Education, will generally prove unsatisfactory. More promising are the results to be expected from the creation of a budget bureau and the establishment of a sound practice with respect to the preparation of the departmental estimates. A permanent budget bureau, equipped with an adequate information service, could do much to prevent the duplication of activities by different agencies and to coördinate the activities of different agencies employing similar processes, or rendering the same kind of service, or serving the same class of people. The friction which is inevitable in any administrative machine assembled from logically incompatible parts would be reduced to a minimum. The establishment of a centralized purchasing agency or bureau of supplies in place of the present General Supply Committee, which merely adopts standard specifications and arranges uniform prices for supplies procured by the agencies in Washington, would also improve present conditions.

Such improvements, however, would not remove the need for some redistribution of existing agencies among the departments. Several more or less comprehensive plans of redistribution have been worked out. The best of them is a *Proposal for Government Reorganization* recently published by the National Budget Committee.

ADVANTAGES OF REDISTRIBUTION

In general the economies resulting from the redistribution of administrative agencies among the executive departments are likely to be exaggerated. A glance at the published state-

ments of appropriations suggests that the possible savings to be obtained by a more economical arrangement of the administrative agencies outside the military and naval establishments can not exceed a fraction of one per cent of the total annual expenditures. Greater savings can not be obtained except by a reduction in the service rendered. Public opinion probably would not sanction any further curtailment of the services rendered to the people by the civil branches of the national administration. Greater efficiency rather than further drastic economies is what is needed. A well-devised plan for the redistribution of certain bureaus would undoubtedly do much to secure an increase of efficiency. The only field for any substantial saving is in the military and naval establishments. The expenditures upon the national defense can be greatly reduced by a policy of retrenchment in the army and the navy. But that is not a problem in administration. It is a political problem.

Probably, too, the greatest advantages to be expected from any redistribution of administrative agencies will be political rather than administrative. Consider, for example, the case for a new department of social welfare, or, as it might better be termed, of education and social welfare. Such a new department would result from the bringing together under a single cabinet secretary of the Bureau of Education and other existing educational agencies, the Public Health Service, the Bureau of War Risk Insurance, the Pension Office, the United States Employes Compensation Commission, the Children's Bureau, the Office of Indian Affairs, etc. Its organization would give these scattered agencies a common head who would have no other responsibility than that of promoting their interests. It would

greatly improve their position with respect to the dominating influences in the government, the President and the Congress. It would bring them larger appropriations, enable them to expand their services, and establish them more securely in the good opinion of the people of the country.

THE INDEPENDENT DEPARTMENTS

More important than the redistribution of administrative agencies within the departments is the reorganization of the independent executive establishments. In recent years there has been a pronounced tendency toward the multiplication of administrative agencies outside the organized executive departments. At the close of the Roosevelt administration there were only three such agencies of note, the Court of Claims, created in 1855, the Civil Service Commission, created in 1883, and the Interstate Commerce Commission, created in 1887. The Taft administration created several similar agencies, notably the Tariff Commission, the Court of Customs Appeals, the Commerce Court, and the Commission on Economy and Efficiency. The succeeding administration pursued a similar policy. During President Wilson's first term the Federal Reserve Board, the Federal Trade Commission, the United States Shipping Board, the Employes Compensation Commission, and the Federal Board for Vocational Education were the most noteworthy additions to the list. The Federal Farm Loan Board, nominally a part of the Treasury Department, is operated as independently as the Federal Reserve Board. The Tariff Commission, which had been allowed to lapse, was recreated. Only the Commerce Court was destroyed. During the war the creation of independent executive agencies was the outstanding feature of the adminis-

trative policy of the government. Several of these independent war agencies have survived, notably the Alien Property Custodian and the War Finance Corporation.

The late Congress, under Republican leadership, continued this policy. The Interstate Commerce Commission and the Shipping Board were enlarged, and a new railroad Labor Board was substituted for the United States Mediation and Conciliation Commission, originally created in 1913. Furthermore, the Federal Power Commission, nominally an independent executive agency, created by the Water Power Act of 1920, is in substance a sub-committee of the Cabinet, consisting of the Secretaries of War, the Interior, and Agriculture. The principal precedents for this type of agency are the Council of National Defense, created in 1916, consisting of six members of the Cabinet, and the Insecticide and Fungicide Board, created in 1910, consisting of three members of the Cabinet. In each case a subordinate executive officer is in active charge of the work of the agency.

The organization of so many independent executive establishments tends to produce a condition of administrative disintegration like that which existed generally in the states a few years ago. New York, for example, possessed over one hundred and fifty separate administrative agencies, and several states possessed over a hundred. The Federal Government has not yet approached such a condition of administrative disintegration as existed in these states, but it is launched upon a course which leads in that direction. In the larger states the process of administrative reorganization in recent years has brought these independent agencies together, more or less effectively, within a comparatively few executive departments. Administra-

tive reorganization in the Federal Government, however, has been generally understood hitherto as the redistribution of existing bureaus among the departments, and has not comprehended the inclusion of independent establishments within the departmental scheme of organization.

President Taft was deeply interested in the principles of governmental administration, and displayed a more profound insight than many administrative reformers. His policy seems to have been founded upon a distinction between three types of administrative action, that which is quasi-legislative in character, that which is purely executive, and that which is quasi-judicial. The first type was represented by the Tariff Commission, whose task it was to ascertain the facts which should be the basis of wise legislative action. The second type was represented by the Commission on Economy and Efficiency, whose task it was to improve the methods of administrative action. As is well known, President Taft was working towards the creation of permanent agencies by means of which there could be effective central control of purely executive action. The third type was represented by the Court of Customs Appeals and the Commerce Court, whose work, as the names indicate, was intended to be assimilated to that of the ordinary courts of justice.

In constituting an agency of the first type, therefore, the Taft plan contemplated the deliberate representation of the major political parties. The Tariff Commission was actually so organized as to give the dominant party a majority. Agencies of the second type were not designed to be either bi-partisan or non-partisan. They were to be agents of the President, subject to his direction and control. Agencies of the third type were intended to be non-

partisan, hence their members were to receive the rank and tenure of judges. Unfortunately President Taft's most ambitious venture in the field of administrative reorganization, the Commerce Court, failed to fulfil his expectations, and, partly in consequence of an unwise appointment, fell a victim to adverse political conditions.

President Wilson showed by his conduct of the war, especially by his handling of the administrative problems growing out of the control of food, fuel, and the war industries, an appreciation of sound principles of administration, but he did not seem disposed to act upon those principles during his first term. He sanctioned the destruction of the Commerce Court, and the creation of powerful administrative agencies, such as the Federal Reserve Board, Federal Trade Commission, and Shipping Board, without regard to the principles to which subsequently he scrupulously adhered in the organization of the Food and Fuel Administrations, and the War Industries Board, the most powerful (in fact, if not in law) of the special war agencies. Perhaps the explanation may be found in the fact that he enjoyed practically a free hand in the organization of those war agencies, despite the strong fight made in Congress in behalf of the commission plan for food and fuel control, while he was constrained to accommodate himself to certain democratic preconceptions in matters of administration when pushing through Congress the Federal Reserve, Federal Trade, and Shipping Acts.

Be that as it may, the agencies charged with the administration of those great statutes are endowed with a combination of powers without a parallel in the history of the national administration with the exception of the Interstate Commerce Commission during the period 1906-1910 and since

1913. They may investigate, ascertain facts, determine policies, institute prosecutions, try the accused, impose judgment, and execute their decisions.

Moreover, they have been deliberately organized upon partisan lines. The principle upon which they have been constituted is that adopted by the Taft administration for quasi-legislative agencies, such as the Tariff Commission, which deals with matters of public policy wherein partisanship finds its proper place. The principle appropriate for an agency exercising quasi-judicial functions, exemplified in the ill-starred Commerce Court, has been lost from view. These boards exercise quasi-legislative powers, to be sure, most conspicuously in the case of the Federal Trade Commission with its campaign for regulation of the packing industry. But their quasi-judicial functions are too important to be so lightly disregarded. This is not the reign of law, as that term was formerly understood. It is the reign of men, exercising what comes dangerously near to arbitrary powers over their fellow men in some of their most vital activities.

Charles E. Hughes, speaking on this subject last year at the centennial celebration of the Harvard Law School Association, was reported to have said:

Disregarding the lessons of history, there has been a disposition to revert to the methods of tyranny in order to meet the problems of democracy. Intent on some immediate exigency, and with slight consideration of larger issues, we create autocratic power by giving administrative officials who can threaten indictment the opportunities of criminal statutes without any appropriate definition of crime. . . . Ignoring the distinctions prized by the Fathers, and excusing the violation of tradition by easily made phrases, we unite legislative, executive, and judicial powers in an administrative agency, with large spheres of uncontrolled discretion, which

may investigate and lay complaint, and then try and determine facts upon which the complaint rests, their findings of fact, where there is any dispute in the evidence, being made for many purposes conclusive. Useful as are these instrumentalities of administration, they represent to a striking degree a prevalent desire to do without law. There is thus recourse to the most primitive method in dealing with the most difficult problems of the twentieth century.

In reorganizing the Interstate Commerce Commission and the Shipping Board by the Transportation and Merchant Marine Acts of 1920, the late Congress showed no appreciation of the dangers to which the present Secretary of State has so forcefully directed our attention. By the new constitution of the Shipping Board, for example, its members are all to be partisans, four from one and three from the other of the two major parties. Their terms are fairly long and expire in series, but they must be so chosen as to represent the various shipping interests of the country. This is proper in the case of a board with quasi-legislative powers, but wholly improper in that of one with important quasi-judicial powers. The Federal Trade Commission has always functioned as a quasi-legislative rather than a quasi-judicial body, though its powers of the latter description are of high importance. The Interstate Commerce Commission is apparently destined to function in a similar manner. The present administration has a better tradition, so far as these matters are concerned, bequeathed to it by the Taft administration. Its members can not plead ignorance of the principles of sound administration. It is to be hoped that when it deals with the task of administrative reorganization in the Federal Government, it will not fail to act upon the wisdom which it possesses.

Certain of the independent establishments should be incorporated into existing or new departments. Others must remain wholly or in part outside the framework of departmental organization, but, where necessary, should be resolved into their several elements. Quasi-legislative functions should be assigned to agencies organized for the performance of such functions. Quasi-judicial functions should be assigned to agencies organized for the performance of such functions. The Interstate Commerce Commission, for example, and the Federal Trade Commission, perform certain duties which might not improperly be transferred to the Department of Justice. Others may be vested in any suitable partisan or administrative agency. The purely executive duties of the Interstate Commerce Commission alone would furnish ample employment for a large bureau in the Department of Commerce. Still other duties ought to be transferred to agencies whose non-

partisanship can never fail to be above suspicion.

These changes in administrative organization would probably save the Federal Government little, if any, money. On the other hand, they would certainly improve the efficiency of the services concerned. But most important of all, they would greatly strengthen the government in the confidence of the people. For the moment, public opinion seems disposed to make fewer demands upon the government for the increase of administrative activities than for a long time past. The opportunity should be seized to introduce sound methods of administration, to strengthen the administrative machinery, and to accumulate a stock of public confidence in the administrative capacity of the government which will stand it in good stead when opinion presently demands the assumption of new responsibilities towards the public, and heavier burdens again fall upon our administrative system.

Earned and Unearned Income

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THE division of income into two broad categories denominated respectively as "earned" and "unearned" finds little or no sanction in standard texts on economics, but nevertheless, this classification is treated by many semi-scientific publicists as an accepted form of differentiation, and a considerable number of economists show a tendency either to use it in their writings or tacitly to admit its validity. Since, then, the usage of this terminology is becoming increasingly common, it seems worth while to inquire whether or not there exists a type of income which may justly be designated as

"unearned" and which, at the same time, possesses characteristics that make it desirable or necessary to place it in a separate category and perhaps to measure its importance or volume.

If there really is such a thing as "unearned" income, where may it be found? The Single Taxer will assure us that it consists wholly, or at least principally, of rent of land or of profits made through speculation in land. The Marxian will insist that it is made up of interest and the unreasonable gains of "profiteers." The view, however, which seems to find most general acceptance is that all income arising

through the ownership of property is perforce unearned.

Property may legitimately be defined as a legal title to anticipated income. Property and its income are, therefore, such closely related phenomena that it necessarily follows that if one is unearned the other must be also; for what is true of one is true of the other. What are the facts about both?

In order to answer this question, it is necessary first to determine upon a satisfactory meaning to be attached to the term "earned." As a first step in this direction, it is worth while to look into Webster's definition of the word. We find in his dictionary the word "earn" defined thus: "To gain as a just recompense for one's labor, service, etc." This concept doubtless accords with the idea which the word conveys to most of us and may be taken as a logical criterion in the classification of income.

According to this definition, it is clear that one does not earn unless he renders a service. It is questionable, however, if the rendition of a service always makes the recompense therefor truly earned. When one person serves another inadvertently or unintentionally, he can scarcely claim to have *earned* a reward. Probably most of us would agree that the act of earning requires that the service rendered shall require some effort or sacrifice on the part of the earner. With this idea in mind, we shall then set forth the following definition of the term as the one which will be adhered to in the succeeding pages: *Income is earned when it is obtained as a just recompense for deliberate effort or sacrifice made by the income receiver for the benefit of the payer of the reward.*

INCOME FROM PROPERTY

Having selected this definition of the term, let us next consider the ques-

tion of whether or not, in accordance with this principle, the income derived from property can ever legitimately be classed as earned. We may take first the case of a man who works diligently for another and receives as part of his pay a due bill or note. Such a certificate of indebtedness is a typical form of property; yet it is hard to see how the most rigorous Marxian could contend that such property has not been earned. Granted that the note has been earned, suppose that the note is exchanged for a house, is not the house also earned property? If so, does it not obviously follow that the services which the house yields to the owner are earned to exactly the same extent? Similarly, if the note is exchanged for a piece of land, is not the land likewise earned?

To once admit that any one kind of property may be earned, is thus evidently equivalent to admitting that all property may be earned; and to admit that property may be earned is to admit that the income from property may also be earned, for, as before stated, property is merely a title to such income.

At this point, however, the clever Marxian will interpose an objection. While admitting that the face value of the above-mentioned note may legitimately be referred to as earned, he will point out the fact that, when the note falls due, the owner is likely to demand, not only this earned principal, but also an additional sum known as interest, which, in the opinion of the Marxian, has in no sense been earned, but is merely extorted from the holder of the note. This analysis of the payment into two parts is entirely logical, and brings us face to face with the question of whether or not all interest necessarily falls into the category of unearned income.

WEALTH AND ITS ACCUMULATION

Presumably no student of economics will deny that a necessary prerequisite to the advance of society from barbarism to civilization is the saving of tangible wealth and its accumulation into relatively large masses, each mass being under unified control. Thus, efficient farming requires an aggregation of live stock, machinery, buildings, fences and other equipment, the production of which has required years of work for some one. A modern factory represents such a concentration of wealth on a much larger scale, since it often embodies the results of millions of days of toil. Modern productive methods are therefore only possible because many persons have refrained from consuming some part of the output resulting from their respective efforts, and because, in one way or another, single managements have each been placed in control of large aggregates of such savings.

Saving and concentration of the control (though perhaps not necessarily the ownership) of wealth are, therefore, two foundation stones of civilization. How can these two fundamentals best be secured?

History affords examples of states in which powerful rulers or even private individuals through arbitrary power such as force of arms, the use of monopoly or the enslavement of sections of the population have accumulated property on a scale sufficient to permit of a reasonable rate of economic progress. But feudalism and despotism have been slowly but surely yielding before the march of democracy; hence, it is evident that, as devices for saving and concentration, they fail to satisfy modern public opinion. Uncontrolled private monopolies are almost universally detested, and have been declared in some of our state constitutions to

be contrary to the spirit of free peoples. Public sentiment in general apparently considers them as entirely undesirable institutions. What satisfactory methods of bringing about saving and concentrated control over property are then available?

Many socialists advocate the idea of making these processes functions of the state and of the state only. This solution of the problem is presumably a possible one, for the socialist state could retain each year such of the industrial output as the officials believed it necessary to devote to productive processes. As yet, however, our electorate have shown no disposition to place the industry of the country entirely in the hands of the government. As long as the voters remain of this mind, saving and concentration must be secured in some other way, if civilization is to continue.

Now the fact appears to be indisputable that the vast majority of human beings are so constituted that they prefer present to future goods; that is, for example, they would sooner have their cake today than a year hence; rather see a play tonight than next season. Under these circumstances, the natural tendency is to consume all wealth as fast as it is created.

Owing to this time preference for present goods, individual initiative, unless stimulated by some special incentive, fails to provide a sufficient supply of saving to meet the needs of modern industry. It has, therefore, been found just as necessary to pay those who save for their sacrifice in refraining from following their natural bent to use up all their income as soon as received, as it is to pay other persons for giving up their natural longing for rest or recreation, as they must do when they work in a shop, office or factory.

The average poor workingman would be just as ready to put in two hours of overtime as to wait four years to receive the five dollars which is coming to him as an ordinary day's pay. The dollar that he is paid as wages for overtime or the dollar that he receives as interest on the five dollars because he waits four years for his daily wage both represent payments for something which he will only do if pay therefor is in prospect. In many instances, therefore, payments for saving and payments for labor are both alike rewards paid to those who have suppressed their natural desires in order to serve the needs of others. If one is earned, so is the other also. The man who gathers wealth by refraining today from buying the things which he desires to consume at present, benefits society by accumulating property rights which he himself may use in bringing about more effective processes of production, or which he may loan to others who may use them for a like end. This service to society involves real sacrifice, and the interest which he receives in payment for this sacrifice is earned just as truly as are the wages for his labor.

However, it does not necessarily follow that all accumulation of wealth represents sacrifice. Some persons are so wealthy that it would be a great burden to be compelled to spend their entire income upon consumption goods. Saving by this class can not be said to involve abstinence. Their saving is inadvertent and the interest which they receive for the use of property rights thus accumulated can scarcely be classified as "a just recompense for services rendered."

Similarly, when a monopolist, by use of his peculiar power, gathers together property, he may be doing society a real service by such accumulation, but it is a stretch of the imagination to say that he has necessarily *earned* the

wealth amassed. His power has collected it, but the aggregation of resources has been secured only because others have been *compelled* to refrain from consumption. He himself may have given nothing—may have made no sacrifice. Likewise, not all amounts collected as wages are actually earned. Many an employe loafes on his job or does such poor work at times that he adds nothing to the output. Hence, we are forced to the conclusion that some parts of property income are earned and some parts unearned; that even wages and salaries, while perhaps usually earned, are also frequently unearned. The distinction between earned and unearned income can not, therefore, be validly based upon the premise that one comes from labor while the other is received in the form of interest payments or other returns from property. If earned income is to be distinguished from unearned income, the line of demarcation must be otherwise drawn.

INCOME FROM MATERIAL WEALTH

The followers of Henry George attempt to divide income from material wealth into two classes: that received as payments for the use of the gifts of nature, and that derived from artificial improvements on the land. The first type of income, they contend, is wholly unearned and therefore ought to be confiscated by the state.

Their doctrine rests entirely upon two assumptions: first, that all property in natural resources was originally acquired without making any adequate return to society therefor, and hence that most land titles rest originally on theft; second, that no valid transfer can be made of property acquired through theft. The first assumption, while based largely upon surmise, presumably corresponds fairly closely to the facts; the second premise, if carried to

its logical conclusion, leads to results not at all in conformity with the usual tenets of the Single Taxers. It requires but little acumen to perceive that if legal title can not be given to stolen goods, likewise legal title can be given to no part thereof or product derived therefrom. If all the land is stolen property, so obviously also are all the minerals dug from the land, all the wood cut from the land, all the crops grown on the land. Our monetary system rests on stolen gold; our houses are built of stolen wood and brick; our clothes are made of stolen cotton and wool; and our bread is composed of stolen wheat. This logic drives us perforce into the camp of the anarchists who condemn all private property because it rests on force.

The theory that to establish valid title we must hark back to the beginning of things is so palpably absurd as to seem unworthy of the consideration of any serious thinker. Yet, strangely enough, a recent writer of recognized ability has apparently endorsed this very doctrine in a disguised form.¹ The courts, however, are more logical in carrying back over only a relatively short period of time their investigations into the validity of titles. Modern business is only possible on the theory that unquestioned possession soon becomes practically equivalent to legal ownership.

We are then forced to the conclusion that, as long as men are permitted to exchange labor for money, and money for land, the property in the land and the rent of the land are neither more nor less earned than the property in the money itself. The effort to place in the category of unearned incomes all rents arising from gifts of nature evidently, therefore, results in absolute failure.

¹ Brown, Harry G. *The Theory of Earned and Unearned Incomes*, pp. 205-208.

UNEARNED INCREMENT

While the contention of Henry George, that all land rents are unearned, has been given relatively little support by orthodox economists, another doctrine originating in the ranks of the Single Taxers has received more serious consideration. This is the theory that increases in land value constitute an "unearned increment." The truth or falsity of this assumption may perhaps best be ascertained if we first consider the case of the coal merchant. He buys coal for twelve dollars and sells it for fourteen dollars a ton. Does he get an unearned increment? Most economists will agree at once that he does not. He is paid for his service in holding the coal in readiness for the customer—a process in which time utility is added to the coal. In exactly the same way, the land merchant who buys urban land in large tracts, and sells it off in small parcels on terms convenient to purchasers of limited means, earns a reasonable profit on the transaction.

The Single Taxer will at once reply that such instances are purposely chosen to avoid meeting his contentions fairly. He will say that the term "unearned increment" is applicable mainly to those cases in which the land has risen in value, not because of any effort of the owner, but solely as an effect of the growth in the demand for land, a factor over which the owner manifestly has no control. To illustrate, he will cite the instance of the man who purchases a city lot and does nothing to it whatever, but nevertheless eventually reaps a thousand per cent profit on his investment. Here, we are told, is a typical example of unearned increment.

The Single Taxer's contention in this case has much weight, though his opponents can argue with some reason

that, under existing social arrangements, any speculative gains made by an owner of earned property through its use are also earned. But if, for the sake of argument, we endorse the position of the Single Taxer in this respect, we can not stop without carrying the principle to its logical conclusion: namely, that all speculative or chance gains are unearned. There is no logical reason whatever for distinguishing between gains in the value of land and increases in the value of securities or commodities held for profit or speculation. If one is unearned increment, the other must be also.

It may be remarked in passing that only he who has never tried his hand at speculation will lean to the theory that unearned increments vastly exceed unearned decrements in point of size. The Single Taxer will assert that right at this point lies the distinction between unearned increments accruing from rising land values and those obtained from other lines. Increasing population, he will say, makes land rents, and therefore land values rise continuously, and hence the purchaser of land gains easily and certainly.

LAND VALUES

Such an assumption is apparently founded upon poor mathematical training. It can easily be shown by the use of elementary arithmetic or algebra that land value is the discounted sum of all *anticipated* future rents and this sum is likely to differ widely from the present rent divided by the current interest rate—a formula which is too commonly assumed to be universally applicable. If land values always varied in proportion to land rents, vacant city lots would evidently be practically valueless. Experience amply verifies the conclusion that the ratio of land values to rents is an extremely variable one. For example,

in a given locality, even though land rents are steadily rising, they are not going up as rapidly as people have expected; the town no longer promises to become soon the great metropolis which its promoters predicted as its not distant goal; and hence, the value of city lots is falling tremendously even while rents are still rising. In such an instance, not only does the expected unearned increment fail to materialize, but the speculator suffers a net loss.

Furthermore, even though land values have risen tremendously throughout the United States, it does not follow that most land speculators have made easy money any more than that we can assume that stock speculators on the "long" side are all profiting hugely during a "bull" market. Losses on the reactions are numerous, and immense paper profits are frequently never converted into anything more tangible.

There seems no reason, whatever, then, for differentiating speculative profits in land from speculative profits in any other field, or for supposing that land speculation has, in general, proved more lucrative than other forms of speculation; or even for assuming that the excesses of speculative gains over speculative losses in any line are more than sufficient to pay ordinary wages for the time devoted by the speculators to their dealings. It is, in fact, not at all impossible that speculative losses may, in amount, fully equal speculative gains.

In this connection, it may be well to call attention to the fact that superficial thinkers very commonly fail to distinguish between purely nominal gains and speculative profits. During the period 1914 to 1920, many owners of lands, stocks, etc., saw their property double in money value and they naturally felt that they had made great profits. But if they sold in 1920, they

quickly discovered that each dollar would buy only half as much as in 1914. They had no unearned increment, no speculative profit whatever,—nothing had happened but a change in the measuring stick of value—yet many of these unfortunate individuals had to pay heavy taxes on this imaginary increase in assets which would be pointed out by many as a splendid example of unearned income.

INHERITED INCOME

A type of income commonly referred to as wholly unearned is that received through inheritance. While it must be granted that much inherited income is unearned, it is just as certain that very considerable amounts of inherited property represent earnings of the heirs. When, for example, a man and wife, working together, accumulate property during a lifetime of hard work, the title commonly rests in the husband and, at his death, is often transferred to the wife. Although she is nominally an heir, yet it is absurd to say that this entire inheritance is, to her, unearned income. The same situation holds to no inconsiderable extent as regards property inherited by grown sons and daughters who, by their efforts, have contributed materially to its accumulation.

From the preceding discussion, it becomes evident that earned and unearned income can not be separated from each other by means of any rough and ready rule. Wages, salaries, interest, rent, profits from the purchase and sale of land or other commodities, property acquired through inheritance, all represent classes including some earned and some unearned incomes; and only by a searching analysis of each individual case can it be determined even approximately as to what proportion of the income in each class is justly entitled to be designated as unearned.

The distinction, then, while not especially difficult in theory, is extremely hard to apply to actual cases of income of individuals. Is there any real reason for attempting such a differentiation?

The only plea that seems to have been advanced for making such an attempt is in order that a higher tax rate may be levied on unearned than on earned incomes. Is a differentiation for this purpose wise?

At first thought, it seems only reasonable that unearned incomes should bear a heavier burden than earned. If they have been gained without effort, why not take them wholly or in part for the use of the state? Let us see, however, how such a policy will work in practice.

INHERITANCE TAX

In the case of inherited incomes, it is quite evident that earned incomes ought to be exempt from the inheritance tax, but is it feasible to measure the exact fraction earned? Furthermore, minor children who, in the nature of things, can have earned no part of their father's estate, have been in his mind when he saved for their benefit. Evidently, it would be unjust to subject their inheritance to heavy burdens simply because they have not earned it. Other bases for grading the inheritance tax rate, as for example, size of the estate, closeness of relationship, etc., seem to furnish equally logical criteria for this purpose, and they are much less difficult to apply.

SPECULATIVE PROFITS

Another important fraction of unearned income consists of speculative profits. Shall we tax those gains at a burdensome rate? If so, we shall discourage speculation unless we are prepared to pay out about the same amount of money to speculators who lose as we receive in taxes from those

who win. Is this desirable? Speculation tends to degenerate into gambling and gambling is generally recognized as an anti-social form of activity. The suppression of speculation would, then, perhaps lessen this evil. On the other hand, is not freedom to purchase and sell commodities at will essential so long as we prefer to maintain the competitive order? It is next to impossible to maintain even an approximation to freedom of trade without also having much speculation. Most economists agree that speculation tends to take the burden of risk from the shoulders of industry and to place it upon specialists who are willing to carry it; also, that speculation tends to stabilize prices. To crush out speculation by means of taxation, is, therefore, a policy of doubtful merit. Furthermore, it is extremely difficult to tell in any case where normal mercantile profits (or pay for the expense of carrying goods) end, and where speculative profits begin. On the whole, we could scarcely expect a differentiation of the tax rate on earned and unearned incomes to remedy any of the evils connected with speculation unless the tax is sufficient to practically abolish speculation, and the doing away with speculation seems almost certain to be impracticable as well as detrimental so long as we are not prepared to convert industry to a completely socialistic basis.

It appears, therefore, that a law requiring a differential tax rate upon earned and unearned incomes would give rise to such a host of difficulties in the classification of income that it would be wholly impracticable to make assessments with any reasonable approach to justice, and that even if assessments could be fairly made, the differentiation in the tax rate would be as likely to be harmful as beneficial.

As a matter of fact, however, pre-

sumably no one is seriously anxious to establish any such differential tax if a scientific basis of income classification is to be attempted.

TAX ON PROPERTY INCOMES

The whole movement for a higher tax rate on "unearned" incomes is merely a plan to put more burdens upon incomes from property and less upon receipts from salary or wages. This procedure is sometimes justified upon the theory that the income from property is more regular in its flow and hence can better stand taxation. Can it logically be said, however, that the regularity of receipt of income necessarily increases tax-paying ability? May it not, in fact, be true that the reverse is more commonly the case? Under a progressive system of taxation, unusual gains in an exceptional year are likely to mean heavy contributions to the public treasury, but most of this money has been easily obtained and can, therefore, be turned over to the government with relatively small sacrifice.

It is no doubt true that the larger the proportion of the tax burden laid upon funded incomes, the less it will be necessary to vary the tax rate from year to year in order to meet the normal expenditures of the government. This lightening of the duty of administrative officials scarcely seems, however, to be a matter of primary importance, and the advantages gained in this direction are much more than offset by the discouragement to saving, which would result if the income from present labor were taxed less and the fruits of past labor were burdened more heavily. Were the tax differential large enough to reduce saving radically, the necessary result would soon be either to lessen the average income of the people of the nation or else to bring about the substitution of governmental

for private saving. The proposal to tax property incomes at a higher rate than other incomes is, then, apparently intended merely as an entering wedge leading eventually at best to socialism; at the worst, to Bolshevism, or anarchy. Those favoring such a program should then do so because they favor one or the other of these ends, and not because they are attempting to install a less burdensome fiscal system or to secure a more equal distribution of wealth among the people. If the last mentioned program is deemed desirable, it can be much more logically and effectively accomplished by means of progressive income taxes and by a scientific system of inheritance taxation.

As a matter of fact, the attempt to divide incomes into categories designated as "earned" and "unearned" seems to serve no practical purpose and this classification appears to have been devised, not with any intent to aid science or statecraft, but in an effort to stigmatize the institution of private

property by subtly coupling with the name of the receipts derived therefrom an adjective having a derogatory implication.

Economists who carelessly use the term "unearned income" as a synonym for income arising from property are unwittingly playing into the hands of those who are thus attempting by insidious and devious methods to undermine the institution of private property. It goes without saying that scientists should avoid such a course, unless they deliberately desire to destroy this fundamental basis of the existing economic order, and, in that case, the correct policy would seem to bring the attack into the open and fight out the issue on its merits and demerits.

When economists unite in insisting upon a logical use of the term "unearned" as applied to income, it is more than probable that the term will soon be discarded as a superfluous addition to economic terminology.

Better Methods of Municipal Bonding

By H. W. DODDS

Secretary, National Municipal League

POLITICAL leaders have not given sufficient thought to the advantages which would flow from the adoption of an approved uniform municipal indebtedness law by the various states. While municipal bonds as a class will perhaps never be considered as secure an investment as United States bonds, there is, in many states, room for improvement. Improvident and unsound municipal financing in one part of the country reacts upon the market for all municipals. The recent difficulties experienced by several British Columbia cities, so serious as to cause the provincial minister of finance to

urge that the province assume their debts, will depress the market for all municipal bonds issued in northwestern Canada for some time to come.

If there is need for uniformity as between the various states, how much more pressing for any particular state is the matter of sound bonding practice for the cities within its borders. Large cities may develop a credit of their own, but with average cities credit is a mutual accomplishment. Only by uniformly sound practice can the municipalities (cities, counties and school districts), within a state create a market for their issues one hundred per

cent satisfactory. Aside from the theoretical and somewhat debatable duty of the commonwealth to compel its political subdivisions to follow sound financial methods, is the practical and decisive argument of the market. Conservative bond dealers have estimated that the market for New Jersey municipal bonds was improved from twenty-five to fifty per cent by the passage of the Pierson Act of 1916.

CONSTITUTIONAL PROVISIONS

Americans have never favored centralized, state administrative supervision of cities. It is considered violative of home rule. Attempts to set up such financial control over cities have usually extended to supervision of accounting methods only. Indiana recently gave a state board power to approve or disapprove proposed municipal bond issues, but the innovation, although justified at the time by good practical reasons, was so unpopular as to make an early repetition of the experiment improbable. As de Tocqueville long ago pointed out, Americans prefer to entrust necessary supervision over local government to the legislature rather than to adopt the French model of centralized administration. Our method, therefore, requires a multiplicity of laws which seek to regulate in extreme detail the actions of local government. While such legislation is often unduly meddlesome and contrary to good home rule principles, a state municipal indebtedness law, applicable alike to all local units, can not be condemned as such.

Because of the flexibility of financial practices and conditions, the regulations imposed upon municipalities should be readily amendable. Nothing, therefore, should appear in the constitution except provisions limiting the amounts of debt which local governments can incur. Practice seems to

justify constitutional debt limits. The market demands them, since there appears to be no other way to estimate a city's borrowing power than as a percentage on taxable property. A city's balance sheet is meaningless as a guide in undertaking new expenditures. Since the basis for estimating proper debt contracting power is the assessed valuation of property subject to taxation, debt limits should be applied territorially to prevent evasion by the erection of special municipal districts. The debt limits should be as liberal as the market will stand and bonds which cover revenue-producing enterprises or which are issued against special assessments should be exempt from them. There are difficulties about a hard and fast limit which can be avoided by giving to a state finance commission power to review proposed bond issues after the city's debt has passed a certain percentage. Such an arrangement will protect a city from falling into loose borrowing habits, but will not render impossible wise municipal investments as is often the case under rigid constitutional debt limits.

CURRENT EXPENSES

We now come to a consideration of the principal provisions embodied in a sound bond law. First of all, wise public financing requires that no loan should be contracted to meet current expenses. One exception may be made because of the common practice by which taxes are not collected until nearly the close of the fiscal year. Accordingly, temporary loans in anticipation of revenues should be permitted, but only on the condition that they be retired at an early date in the next fiscal year. It would be much more economical to advance the period of tax collections to the first part of the year and thus avoid the necessity of

borrowing. New Jersey saves a lot of money by collecting her taxes in two installments, the first falling in the middle of the fiscal year.

In this matter of borrowing for current expenses, older municipal practice was extremely lax. Examples, such as fifty year bonds used to purchase street brooms, can be cited freely. But current expenses may mean more than operating or maintenance of existing property or administration. Particularly in the case of larger cities, many capital outlays are properly current expenses because they are recurring charges. School buildings are recurrent charges in New York. Fire equipment and street paving are recurring expenses in almost any city. Since certain sums are spent each year for paving or for new public schools, these capital outlays should be met from current funds. This policy is known as the "pay-as-you-go" policy and was first inflicted upon New York City by the legislature in 1916 at the dictation of bond dealers who had become alarmed at the city's improvidence. Of course, it was applied only to non-revenue producing improvements and its strict application has been alleviated on occasions, ostensibly because of war conditions.

As pointed out in the report of the New York joint legislative committee on taxation and retrenchment in 1920 no one would think seriously of issuing bonds to pay for office furniture, even though a steel cabinet will last indefinitely, because it represents recurring charges. Thus, any city will save thousands of dollars by estimating the amount of the bond issues which it has been accustomed to float annually for all purposes, and by providing that hereafter this amount be included in the annual tax budget. The "pay-as-you-go" policy is sound and applicable to cities of almost any size. It would

be in universal practice if our officials did not find it convenient and safe to pass the burden to posterity.

THE TERM OF THE BOND

That the term of the bond should be confined to the life of the improvement is elementary. Of course the principle has been much violated in practice. In the absence of state administrative oversight, the way by which this principle is enforced (notably in the laws of Massachusetts, New Jersey and South Carolina) is to set up in the law various classes of improvements with maximum terms for each class within which the bonds must mature. This method has been criticized as too inflexible in a time when municipal engineering and construction is undergoing rapid change and improvement, but past experience demonstrates that local government authorities can not be left to themselves in this matter. Since the terms prescribed in law are maximum and not minimum periods, and since advance in technical knowledge is all in the direction of longer life for the improvement, such time limits as those under consideration are not objectionable.

Temporary financing should be permitted during the construction of an improvement for which bonds have been authorized. If it takes two or three years to complete an undertaking it is only common sense to borrow from time to time only so much money as is needed at successive periods until the work is completed and the whole bond issue can be floated. Such temporary financing likewise brings greater freedom in selling the final bond issue and enables the city to wait for a more favorable market if deemed expedient.

SINKING FUNDS ABOLISHED

Now that investors have come to prefer serial bonds to sinking fund bonds

there is no rational excuse for the latter. The report of the New York committee referred to above undertook to justify sinking funds for larger cities on the ground that they are able to employ skilful talent to administer them scientifically, and that the accumulations therein render such cities independent of market conditions in providing for their more extensive requirements. However, to most people such municipal dabbling in finance will seem many times more dangerous than the rather simple enterprises which public ownership advocates are urging upon our cities. The sinking fund principle has been tried and convicted so often, as to render further comment superfluous.

Sinking funds are usually mismanaged. Efforts to provide by law automatic means for their administration independent of frail human agents fail as later years bring new market conditions. The indictment of the present New York State comptroller and his predecessor for corrupt practices in connection with state sinking funds is the latest episode in a long series of similar embarrassments. A recent study of Cleveland's sinking funds showed them to be in a deplorable state. Surprising as it may seem, a share of the blame for this must be placed upon the administration of Tom Johnson, who sometimes preferred to see the city skip its sinking fund charges rather than endanger his political program by raising the tax rate.

Serial bonds, therefore, should be compulsory, and refunding should be prohibited except in the event of extreme emergency such as war, public disaster or pestilence. Under the usual form of serials the bonds fall due in equal annual installments, which means that as successive serials are retired the annual interest charges, and thus the total debt charges, fall with each passing year. For many

improvements this means only that as the property depreciates, the debt charges decrease, which is a perfectly proper relationship. However, for improvements of a non-depreciable character, or for improvements the returns from which will not begin until after an extensive period of waiting, some device which will equalize the burden, as in the case of sinking funds, may be desired.

For such cases so-called serial annuity bonds may be used. These are bonds so arranged as to make the sum of principal and interest the same for all years. As the sums paid for interest decrease, the principal redeemed increases by approximately the same amount as the interest payments drop. Of course, to work this out with absolute accuracy would necessitate some bonds issued in absurd fractions, but except in case of the smallest issues a practical approximation can be attained without indulging in bonds of odd figures and decimals.

THE SOLUTION IS SIMPLE

The solution for loose, local borrowing is easy. A state law along the lines here indicated will do the trick. State administrative oversight of local financial practices will also be an aid, and many people are prepared to recommend that a state agency be established to provide discretionary elasticity which can not be attained by mere statutory regulations. The success of the local government board in England and Canada, whose powers extend even to disapproving proposed local issues, would seem to hold out a lesson for us.

Following the report of the joint special committee on municipal finance in 1913, Massachusetts passed a bond law containing the principal provisions here set forth. All reports are that it has been an unqualified success. Its

conditions have been followed out in practice, and the former custom by which cities and towns secured numerous unsound special concessions has been largely eliminated. New Jersey followed in 1916 with a similar law, the

success of which was indicated above. South Carolina adopted a law, in 1917, following in principle the New Jersey act. The passage of such a measure represents a genuine public decision to adopt an honest borrowing policy.

Problems of a Model State Income Tax

By HENRY HERRICK BOND
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IF we concede that the quest for uniformity in state income taxes is not too visionary to justify our labors, and turn to the practical work of drafting such a model law, we are confronted with various problems, some general and others involving legal technicalities or matters of administrative policy. It is the purpose of this article to indicate the principal underlying problems and suggest their solution.

FORM AND PHRASEOLOGY

Let us consider first the matter of form and phraseology. Shall we adopt the language and style of the Wisconsin Act, the New York Act, or that of Massachusetts? Or shall we follow the federal drafting? The latter is obviously imperfect, carelessly worded, often ambiguous. On the other hand, Massachusetts' drafting sounds verbose to a New York resident, while New York's legislative work seems often crude and incomplete to Massachusetts ears. We must recognize, however, that the federal income tax has been applicable to an increasing percentage of the entire population since 1913, that they have become gradually acquainted with its principal requirements and the language of its paragraphs, and that any variation therefrom in future federal income tax acts is likely to be slight. Further-

more, its provisions have been, and will be for years to come, the basis of judicial decisions that would only apply indirectly and questionably to an act embodying entirely different phraseology. Thus an adoption of such different language would be an economic waste of judicial effort. For these reasons, it seems preferable to adopt the federal form and language wherever possible, departing from it only where it is clearly ambiguous or where the change is so slight and so in the interests of good English that no harm can result and possibly some gain may accrue. Such an adoption of federal form and language is far more likely to be acceptable to the states as a whole than the previous efforts of a particular state legislature in this direction.

For the same reason that its provisions have become a matter of fairly general knowledge among the tax-paying public, and the basis of court decisions elucidating and defining these paragraphs, it seems advisable to adopt in the main the federal provisions defining gross income and net income. These paragraphs have been tested over a period of years, cover the subject matter adequately, and have in the main proved equitable. Most of the objections that may be urged against them arise either from faulty administration or from an interpreta-

tion that shrinks from conceding an equitable result not clearly required by the law itself.

SHALL THE ACT BE CHANGED?

On certain points, however, inasmuch as the federal department has so definitely adopted certain rules to the contrary, a change in the act itself should be seriously considered. Most students of taxation will agree: (1) That in determining gain or loss from the sale of property, the adoption of a necessary basic date value often works a hardship and creates a fictitious taxable profit, and that, therefore, the use of actual prior cost in lieu thereof should be optional with the taxpayer; (2) that exchanges of property for shares in the organization of a corporation should not be deemed to create taxable income; (3) that the question of whether taxable income is created by exchanges of shares in reorganizations and mergers is not handled upon a satisfactory basis under the federal law. It is further suggested that under a low-rate state tax, the deduction of all interest may safely be permitted, even though incurred in whole or in part in carrying non-taxable securities, since any apportionment in such cases is apt to be arbitrary, difficult and inexact.

A good income tax will in the main accord with good accounting principles, and any divergence should be viewed with suspicion. Perhaps the most striking instance of such a divergence is in the matter of contingent losses and liabilities,—matters which every accountant will insist upon having set up in the balance sheet in the form of reserves, but which the federal authorities, though probably authorized to permit this under their law as a deduction from income, refuse to recognize until the liability is determined by final court decision or

prior settlement between the parties. This applies to all tort liabilities, admiralty claims and many claims in contract for damages. Can such matters safely be included in the list of deductions from gross income? Obviously their inclusion must be so handled that the government will be safeguarded from any abuse of the privilege. This can be accomplished by the adoption of some such provision as the following:—

In the case of taxpayers who keep regular books of account upon an accrual basis and in accordance with standard accounting practice, reserves for bad debts and for contingent liabilities may be deducted, under such rules and restrictions as the tax commission may impose. If the tax commission shall at any time deem the reserve excessive in amount, it may restore such excess to income, either in a subsequent year or as a part of the income of the income year, and assess it accordingly.

With the above changes, the federal provisions as to gross and net income may safely be made the basis of a model state act.

THE PROBLEM OF SCOPE

Having thus outlined the tax itself, the problems of its scope and incidence must be considered. Shall it apply to all persons who realize income within the state, or shall it apply only to those who are domiciled within the state? Massachusetts has adopted the latter test, Wisconsin and New York the former. The New York problem of "Jerseyites" and commuters from Connecticut is perhaps unique, but most western states would refuse to accept an act that failed to tax the income of eastern capitalists who realize profits within the state in mining or other enterprises. The test of domicile or residence is not an easy one to administer, as Massachusetts has found out. If, however, every state

should impose the tax both upon its legal residents and upon non-residents who earned income within its borders, then there would be two taxes paid upon all income earned outside the state of residence and but one tax upon income earned therein,—an unfair discrimination.

This can only be avoided either by a credit in one state for taxes paid on the same income elsewhere, or by the adoption of the test of domicile as the sole basis for the tax. New York has incorporated the idea of a credit. Such a credit means a waiving to that extent of the right to tax by the state of domicile, and might conceivably affect its revenue seriously.

The committee on a model tax system appointed by the National Tax Conference has suggested as a solution of the problem the imposition of two separate, distinct taxes,—one upon all income by the state of domicile or residence, the other upon income earned within the state by any person, resident or non-resident. Thus, the resident who earned his entire income within the state would pay two taxes therein, while he who earned his income elsewhere would pay one tax in each state. This scheme, while theoretically sound, would be slow of adoption but is more logical than the New York tax credit. States where the non-resident is not much in evidence should content themselves with an income tax based on domicile or residence; others can add to this a so-called "business tax" payable by residents and non-residents alike upon all income earned in business within the state.

THE PROBLEM OF INCIDENCE

The problem of the incidence of the tax raises two questions: To what residents shall the tax apply; and how much of their income shall be exempt?

Shall the tax be upon all who are residents for a certain length of time during the year? Shall this be the year when the income was produced, or the year when the tax is payable? Or shall we apply the tax to those residing within the borders of the state on a particular day?

Careful analysis will show that if a period of time is taken as the test, then if this period is one of less than six months, two or more states may each properly claim a tax upon the same income in certain cases. Massachusetts thus claims a tax from every person moving into the state at any time in the first six months of any year, upon his income for the entire preceding calendar year. If this rule were adopted generally, then a person who, in January, 1921, removes from New York to Massachusetts, and again in April removes to Connecticut, from whence he leaves in June to reside in Pennsylvania, would, in theory, be subject to four income taxes upon his entire 1920 income, although the three states whose borders he had crossed would have obvious difficulties in collecting.

Our law, if it is to be a model law, must avoid such overlapping of jurisdiction, and this can be done properly only by taking residence upon a single definite date as the test, such as the date when the return itself is due; for if we were to require at least six months' residence as a preliminary, then many by prior removal would escape taxation in any jurisdiction, a result as inequitable as the double or quadruple tax above illustrated.

ANALYSIS OF TAX

This conclusion is supported by an analysis of the true nature of the tax which we are imposing. Such an income tax should not be conceived as a property tax, but as a personal tax

measured by the prior earning power of the individual as a gauge of his ability to pay. We often refer to it in general conversation as a "tax upon income," and such is the easiest everyday conception; but strictly speaking, it is a "tax measured by income." If, then, the state is taxing its residents in 1921 to pay the state or local expenses of that year, the mere fact that this is measured by income of 1920 should not divert our attention from the fact that only those persons who are in the state in 1921 receive the benefits thereof, and should therefore bear the burden. And being thus benefited, the fact that their income was earned in 1920 in a state from which they have removed should not relieve them from tax.

Residence upon a single date, then, either on the first day of the year in which the return is due, or on the due-date of the return itself, should be adopted as the test of incidence. It follows from this that the income of persons who decease before such date will escape taxation, if we are to be consistent. To many, the presence of such a hiatus in an income tax seems repugnant, as they feel that income from property should be taxed at all times to someone, with no gap in the case of death. But this view is inconsistent with the theory of a personal tax. It reverts to the idea of a tax upon income as it is being earned, rather than upon the person for benefits later conferred in the year when taxed. In the case of death the benefits cease and the tax should not be imposed.

Within the scope of the tax should be included, if the rate is to be a flat one, individuals, fiduciaries and partnerships. If, however, the rate is progressive, depending upon the amount of income, then the returns of fiduciaries and partnerships must of

necessity be for information only, and the income received from such sources included in the returns of the partners and beneficiaries. In the case of a flat rate with a direct tax upon fiduciaries and partnerships as such, the tax should be regarded as essentially a collection at the source and should be made dependent upon the domicile of the beneficiaries or partners, as the case may be, rather than upon the residence of the fiduciary or the place of business of the partnership. Even if we adopt a progressive rate there will be certain cases where fiduciaries will be directly taxable, as where a person deceases after the date selected for the incidence of the tax and before the assessment or payment thereof; also in the case of fiduciaries representing insolvent or incompetent persons.

INCOME RECEIVED

Turning now to the point of incidence with reference to the amount of income received, it would seem advisable to adopt the federal exemptions of \$1000 for a single person and \$2000 for a married person living with husband or wife, and an additional \$200 for each dependent. The original recommendation of the Model Tax Committee of the National Tax Conference was for a somewhat smaller exemption, but this was made before the increase in the cost of living had taken place. In view of this increase and for the sake of absolute uniformity with the federal rule, the adoption of these exemptions is urged. It is extremely doubtful whether the placing of a smaller exemption would increase the revenue in proportion with the increased expense of administration. The small returns of income are those which require the most attention and assistance, and expenses can usually be so estimated by a taxpayer that a

tax department, in the absence of exact records, can rarely make an assessment which justifies the expense involved. On the other hand, it is obviously a distinct disadvantage to have one rule for the filing of state returns and a different rule for filing of federal returns, as Massachusetts has learned, and if it can become generally known that any person subject to either law must be equally subject to the requirements of the other, the number of delinquents will be very largely reduced.

Whether the returns should be required upon the basis of gross or net income of a stipulated amount is a question concerning which there has been much discussion. The federal act has always required a certain minimum of net income as the basis of the return, whereas Massachusetts takes as the test the amount of gross income. It is obvious that the use of a net income figure allows the taxpayer in doubtful cases to estimate his expenses, including depreciation, very liberally, and by various errors and misconceptions so reduce the balance that he satisfies his conscience that no return is due. The discovery of such border-line taxpayers is difficult and rarely attempted, with the result that a certain class undoubtedly escapes taxation altogether. On the other hand, the taking of gross income as the test results in the filing of a large number of returns of small businesses in which the net income is substantially less than the exempted amount, and the handling and examination of every such return is a direct administrative expense, with no return therefor.

On the whole, since a state income tax efficiently administered is at the best a somewhat expensive method of raising revenue, involving generally an expense of from one to five per cent of the revenue collected, it would seem

preferable to adopt a test of net income for the reason last stated, even though a small number of taxpayers may escape contributing their small amounts to the reduction of the general burden.

METHODS OF ENFORCEMENT

For the enforcement of the act, we have a choice between two methods,—“collection at the source” and “information at the source.” Under the earlier federal acts, “collection at the source” was tried, but the results were so unsatisfactory as to lead to its abandonment in favor of the other method, in later acts. This is now the method of enforcement used in Wisconsin, New York, Massachusetts and elsewhere. While the effect of “information at the source” is a moral one, acting *in terrorem*, this moral force is a very real and valuable one, and the experience of Massachusetts has shown that in addition such information may be made the basis of very important delinquent and auditing work. Therefore, though it involves much waste effort in its preparation and the system is far from perfect in its operation, yet it has a real function to perform, and plays an important part in producing that substantially complete enforcement which alone can keep such a tax upon the statute books.

THE ADMINISTRATIVE ORGANIZATION

Our final problem is that of determining the powers and duties of the administrative organization and the method of creating such an organization. This latter involves a choice between direct appointment, subject possibly to confirmation by the highest executive authority of the state, and selection by civil service examination. Massachusetts still clings to the former method, New York, Wisconsin

and (to some extent) the federal department use the civil service test. Under ideal conditions, where political pressure will not be used unduly or unwisely, the Massachusetts method probably results in a better selection of the personnel, as the most essential qualities—tact, courtesy, industry and loyalty—are not such as are disclosed by written examination. However, as conditions generally exist, it is probably wiser to adopt the method of selection by civil service examination, with the understanding that due provision be made for an oral examination as a part thereof, with income tax officials participating therein.

In determining the powers and duties of the administrative officials, we must weigh, on the one hand, the necessity for compelling full and complete enforcement of the law and disclosure of all taxable items (with punishment for negligence and fraud), and on the other hand, the necessity of protecting the public from an over-exacting, bureaucratic, vexatious administration. Shall we, then, give unlimited powers of investigation, audit and re-assessment, or shall we limit these to prevent their abuse? After all, it is of primary importance that the law be effective, that it have sufficient teeth to command respect and obedience; and there is serious danger of its virtual failure if we render helpless the administration machinery. If administrative powers tend to be abused,

public opinion may usually be counted upon to remedy the evil, and we can safely rely upon this and the ordinary good-sense of officials desirous of retaining their jobs, to keep the administration within reasonable limits. Enforcement should not be unnecessarily vexatious, as it too often is in the case of the federal department, but it is more important that enforcement be not lax and casual, nor should we change our method as a remedy where only a change of personnel and administrative attitude is required.

Various other provisions must be included in our model law, such as those providing for distribution of the revenue collected, the exemption of intangible personal property from taxation, secrecy as to the contents of returns, publication of statistics, etc. These are, in part, matters which must be adjusted to meet varying local conditions in the different states. In general, I would point out in conclusion that all of the provisions of such an act should be drafted with due consideration of the local problems involved, since in the attempt to secure uniformity among the states it would often be unwise to ignore these local conditions.

I trust that the presentation of these problems and their suggested solution will make it apparent that our vision of a uniform state income tax among the states is not too difficult to justify our continued endeavors.

State Supervision of Local Assessments

By FRANK B. JESS

President, New Jersey State Board of Taxes and Assessment

GOVERNOR EDWARDS of New Jersey, in his recent message to the legislature under the heading "Taxation," strongly recommended that the powers of the State Board of Taxes and Assessment be enlarged as one means of securing a more equal distribution of the tax burden. He said:

The practical problem of taxation now confronting us, is the problem of so making our tax levies that all property subject to taxation shall contribute to the support of government precisely in proportion to the value of such property. The accomplishment of this object would, in my judgment, be materially advanced by widening the powers of the State Board of Taxes and Assessment.

He then urged that the power of reassessment be definitely vested in the State Board, and added:

The State Board should also be given such powers as will enable it to enforce any order or direction issued to a local assessor. The local assessor is the agent of the state in performing a highly important public duty, and the state should devise the means to make sure that that duty is honestly and efficiently discharged.

The recommendation made by Governor Edwards for improving the assessing machinery of New Jersey is equally appropriate to any other state in which the general property tax is relied on as the chief source of public revenue, and part of the levy is for state uses.

Some of the most serious defects in the administration of state taxing systems are due to the lack of authoritative supervision and control. While the cost of government has increased tremendously, and many new sources of revenue have had to be found, very

little progress has been made in the direction of improving the processes by which taxes are levied. The problem of raising by taxation the vast amounts of money required for public purposes has become year by year more intricate and perplexing, but one of the principal factors in the right solution of that problem has been persistently ignored. I refer to the primary assessment. This is the foundation that supports every system of taxation. In the scheme of the general property tax, by which the great bulk of the revenues are raised for municipal expenditure, the initial valuation determines whether the tax burden shall be equally distributed. Recognizing the fallibility of the assessor, legislators have wisely provided methods for the review and correction of his work.

But little has been done to solve the problem at its source. Schemes for alteration, revision and equalization are proper and necessary, but in the nature of things they can remedy only a small percentage of the inequities and injustices which result from defective valuations. When the assessor by his act decides what proportion of a taxpayer's property shall be taken for public use his decision is, in ninety-nine cases out of a hundred, final and conclusive. The power he thus possesses constitutes him one of the most important agents in our political system. He should be selected with special reference to his integrity and his expert qualifications for the work he is to do.

As a rule those considerations have no bearing whatever upon his selection. There are exceptions to this rule, but it may be asserted as a general prop-

osition that ability to appraise property accurately is not the controlling principle in the choice of assessors. They are either elected or appointed. Whichever method of selection is used, political considerations enter much more largely into the choice than regard for efficiency. In most cases regard for efficiency is a minus quantity. Much might be said on this subject of selecting assessors, but the aim of this discussion is not to point out how it might be possible to improve the quality of assessment by improving the method of choosing assessors. The purpose is rather to suggest how better assessments may be obtained by building upon the assessing structure as it already exists.

Two things are necessary to attain this result. In the first place the public must awaken to the fact that the assessment of property for taxation is the function of government that most vitally affects the owners of the property taxed. Secondly, such machinery will have to be set up as is necessary to the efficient performance of that function. It is unlikely that this will be done until the first condition has been realized. Legislators seldom move in advance of public sentiment. It is only by discussion and agitation that public opinion can be crystallized and induced to express itself effectively. The suggestions here made are intended to contribute to that discussion in a constructive way.

The local assessor should be subservient to state control exercised by a state agency. That state agency should be a board, or commission, appointed by the governor, with adequate powers and effective means to enforce them. These powers should include authority:

(a) to establish standards of valuation and to compel the observance of those standards.

(b) to make rules and issue orders binding upon the assessor.

(c) to order or make a reassessment of any property, or all of the property in any taxing district, or in any county.

(d) to remove, or institute proceedings for the removal of, any assessor for failure in the performance of duty.

(e) to prescribe forms and rules, and compel their use, for the return of property by taxpayers.

(f) to prescribe penalties for failure to comply with its rules and orders.

(g) to review assessments on appeal and to render judgments not subject to judicial reversal except upon questions of law.

It may be objected that the powers here proposed to be vested in a state board are drastic and far-reaching. The answer to that objection is that unless such a board is clothed with such powers the purpose of its creation can not be accomplished. It must be borne in mind that the proposal contemplates a body capable of achieving a fair and equitable assessment throughout the state.

It may be further objected that to endow a state board with such autocratic powers would deprive municipal units of some of their authority within their own jurisdiction. The answer to that objection is, first, that the right to levy taxes is one which inheres in the sovereignty of the state, and can be exercised only in the way and within the limits which the state may prescribe, and second, that the state as a whole is concerned with each individual assessment. The valuation of property in each taxing district is a matter of general, as well as local, interest. That valuation is the basis not only of what the property in that particular district shall pay in taxes, but also is an element in determining what property in other districts shall pay. The assessor, while locally selected to act in a given municipality, is the agent of the state and should be subservient to

the state in the performance of his function. These are some of the legal aspects of the situation. The practical considerations are equally pertinent.

It is obvious that if all the taxable property in the state should be assessed at its true value, or at a uniform percentage of true value, the burden of taxation would be apportioned with exact equality. The chief objective of the assessing system of the state should, therefore, be uniformity of valuation. It would be foolish to suppose that this ideal can ever be wholly attained. But it is more foolish not to aim at its attainment. The scheme of assessment should be devised with that end in view and so framed as to facilitate its achievement. The prevailing scheme provides as many assessors as there are taxing units. Even if each assessor were an expert, the grand result inevitably would be a great variety of valuations. As so many assessors are not experts the absence of uniformity is all the more conspicuous. Each assessor or assessing body is now a separate machine, functioning independently in a particular territory. He should be a part of a system having a central power plant functioning for the entire state. In other words, the assessing authority should be lodged in a state board and be exercised directly through the local assessor. I do not wish to be understood as suggesting that state boards are omniscient, or that they always are composed exclusively of men who are free from human frailties

and limitations. I am, for the moment, leaving the matter of personnel out of consideration. The point I wish to make is that, since the assessment of property is a state function, and since all the people of the state are affected by all the assessments, the state should set up its own immediate agency to see that all assessments are on a parity. This is a tremendous task.

It may be conceded that in many taxing districts, and especially in some of the larger cities, the work of assessment is exceedingly well done. In such cases, state supervision would not hinder but rather fortify efficient local administration. The chief result of strict state control would be to establish and maintain in all taxing districts the high standards which now exist in some of them.

Any general plan of state supervision must, of course, be subject to such modifications and adjustments in detail as might be necessary to adapt it to the varying needs and peculiar polity of a particular state. All that is here contended for is the application of the fundamental principle that the base of the general property tax shall be designed and built to meet the requirements of the superstructure which it supports. The suggestion is simply that the state, under whose authority taxes are levied, shall through its own direct agency, vested with plenary powers, see to it that such taxes are levied upon a uniform basis of valuation.

A Program for Redistributing Sources of Revenue as between Cities, States, and National Government

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IN this reconstruction period following the World War there are certain to be important changes in our financial systems. It is earnestly to be hoped that whatever the changes may be they will represent movement towards rather than away from a theoretically ideal system. But in any event, the best we can expect is a compromise between the desirable and the attainable. The future historian of our present tax system and its changes will probably be able to reduce his outline to three main heads, as follows:

1. Right Principles (abstract justice).
2. The Expedient (administrative standpoint).
3. Compromise of the First and Second (program of taxation).

1. THE IDEAL SYSTEM

It is quite generally agreed that justice requires that the true basis of taxation should be the ability to pay. In carrying out this ideal scheme literally, no income should be exempt from taxation. This carries with it, of course, the further consideration that there should be no tax-exempt securities. To carry this important principle into practice would involve an amendment to the fundamental law of our land.

The foregoing considerations are based on abstract justice. The ideal system, from the administrative standpoint, is the most simple system. In short, to carry out to its logical conclusion the ideal system here, we are forced to come to the three forms of taxes, namely, land, income and inheritance.

Tax administrators tell us that a little, almost trivial, device may mean the difference between failure and success of a tax, so vital is the administrative contact problem. Hence, in any scheme of taxation we ought to aim at making our tax business conform to our orderly and well-established business methods. This means, in our ideal system, that a person should have presented to him one tax bill each year, covering all his taxes for all purposes, for all jurisdictions,—federal, state, and local. One check should settle this bill, if the person so desired, or suitable terms of payment (twice or three times a year) might be allowed, since this is not so important. The important thing is for the taxpayer to know definitely what the amount of his tax payment is to be, and to know in detail for what purposes it is to be used.

The contrast between the methods of paying the tax bill in some of our old eastern states and some of our newer states is so striking as to be worth illustrating. A tax officer from New York State was recently investigating fiscal matters in a middle western state. In his home state it was his custom to receive many separate tax bills during the year, for various jurisdictions and for different purposes. He found the middle western taxpayer receiving one itemized bill covering state, county, city, and school taxes, with the definite amount specified for each jurisdiction. One-half of this bill was due January 1 to March 1; that is, any time during two months. One check would settle half the bill or the whole bill, or the second half of the bill could be paid by

July 1. The time will ultimately come when the taxpayer will receive one tax bill for a definite amount covering his federal, state and city taxes. One tax bill and one check will pay it. This is an orderly business method.

2. THE EXPEDIENT

The first test any tax must meet is this one: Can it be administered; and will it be administered with a maximum of result and a minimum of effort? This concrete problem of administration takes precedence of the problem of a proper source of revenue now that the Federal Government is committed—and doubtless permanently committed—to taxing incomes, inheritances, and corporations. There no longer remain any sacred "fields" of taxation for the states. We may look forward with some confidence to the time when every state will also be taxing incomes and inheritances; corporations, of course, they already attempt to tax. Anticipating for the moment our discussion of the sources of revenue, let us consider two expedients now palpably and indisputably necessary in administering federal and state taxes, coöperation and decentralization.

Coöperation. The program of "segregation and separation" in federal and state tax administration is no longer workable. It is a violation of common sense that the two jurisdictions should go on working with disregard for the other's needs or methods. If the same property is to be taxed by the two jurisdictions, the nation and the state, then one valuation of that property is enough. Of course, the common sense of the administrators in charge of the federal income tax and the state income tax in such states as Wisconsin and New York, for instance, has already led to a considerable degree of voluntary coöperation. As one fed-

eral administrator remarked, referring to income and inheritance taxes:

The fact or set of facts which in the last two or three months I think has been borne home to me most keenly at Washington is the increasing degree in which the tasks of the Federal Government—the federal official—and those of the state official are alike, common, identical.

Continuing this thought, the same official said, in substance, that it is expensive and extravagant for the Federal Government to be conducting a big administrative tax machine and for the state and local governments also to be doing it, one walking in the tracks of the other and not very closely scrutinizing the tracks of the other. "There should be some sort of coöperation."

Decentralization. The Treasury Department at Washington is too far removed from the taxpayer to administer successfully the income tax and the inheritance tax. The remedy for this defect is to decentralize this administrative work to such an extent that there would be, in effect, a joint administration of these two taxes with the state governments interested.

Coöperation and decentralization should be carried to the limit dictated by efficiency, and that limit is, apparently, joint administration of these common taxes, joint collection of the taxes, and a division of the proceeds. Such a program would cure two very outrageous evils in our present system; namely, the shifting of residence evil to avoid certain taxes, and the double taxation evil. It is putting it mildly to speak of "double taxation" under our present system, since certain property not only may be, but frequently is, legally taxed four times in one year.

3. THE COMPROMISE

The brief suggestions above on the administrative problems emphasize,

purposely, the importance of a tax system that will work out fairly well in practice. I want to insert here, in the way of an *obiter dictum*, my hearty disapproval of any "painless" system of taxation—of any plucking of the goose with the least squawk. Taxpayers will never take a proper interest in economy and efficiency in public expenditures until they feel the cost of such extravagance. Never will they take more than a languid interest in our customary governmental waste and extravagance till they feel some drain on their own pocketbooks.

Assuming that the federal tax burden for this year will be approximately \$6,000,000,000 and for next year \$4,000,000,000, we have a per capita federal tax of substantially \$60 this year and \$40 next year. This sum makes the federal tax burden heavier (to the average taxpayer) than his combined city and state tax. It is appropriate therefore to consider first the sources of federal revenue.

SOURCES OF FEDERAL REVENUE

(1) *Income tax.* The income tax should come first as a source of federal revenue. It should apply to all incomes of \$1,000 and over. It should be a graduated tax. The present income tax rates should be readjusted in the higher brackets. For administrative reasons fifty per cent seems to be a high enough limit on the larger incomes, instead of the present rate of seventy per cent or over.

States with an income tax should have the power of adding on their tax to the federal income tax. In this manner, one reporting and one collection (a joint affair between state and federal government) would serve the purpose. There should be distributed back to the state its own share of the tax.

(2) *Corporation tax; excess profits*

tax. The corporation tax is a going concern and should be kept as a federal tax, but as in the case of the income tax, certain readjustments are desirable. The excess profits tax, while it has a beguiling name, is a thoroughly discredited tax from the administrative standpoint and should be permanently discontinued. To compensate in part for the loss of revenue thereby occasioned, an increase should be made in the corporation tax. A flat rate of fifteen per cent seems to be the proper size for the corporation tax. By applying the income tax, at a low rate, to incomes as low as \$1,000, an increase in the yield from this tax would further compensate for the loss of the excess profits tax. The corporation tax is used, in one form or another, by all the states. Federal and state taxes on corporations should be jointly administered. The state should keep the larger share of this tax.

(3) *Inheritance tax.* Only a few years ago the National Tax Association made a gallant fight to have the Federal Government keep its hands off the inheritance tax, but failed. Now most tax students are fully reconciled to having the Federal Government employ this form of taxation. Indeed, many are converted to the view that this tax is peculiarly well-suited to federal administration, owing to the ease with which residence can be shifted.

But like the two foregoing taxes, this is also a proper source of revenue for the state. Here again, as in the case of the income tax, it seems to be a good place for the state to add on its tax to the federal tax and have its own share distributed back to it. Our high tax authorities are agreed that most of the inheritance tax should be kept by the state.

(4) *Consumption tax; sales tax.* Our sales tax, as now in force, is a

monstrosity from every standpoint and should be abandoned *in toto*. Its rates, varying from three per cent to one hundred per cent, are a hint as to its administrative complexities. A consumption tax is always wrong in theory, but seems to be necessary as one of those "compromises" which constitute any working system of taxation. Consumption taxes should be looked on as supplementing the income tax. Those persons having incomes of under \$1,000 (under the scheme above) would pay no federal tax at all if they were not reached by some form of indirect tax. A very short list of articles should come under the consumption tax. It is common to lay down the general principle here of "no tax on necessities; heavy taxes on luxuries." No one can satisfactorily define luxuries, however. It is also considered proper to tax "harmful consumption" or "wasteful consumption."

It seems obvious that at least two commodities lend themselves to the consumption tax, namely, beverages and tobacco. It seems highly desirable, as well as expedient, to increase very materially the taxes on tobacco. The tremendous and rapid increase in the use of this weed, particularly by the young men in the form of cigarettes (by young men who would otherwise escape all federal taxes), and the concomitant and rapid rise in our annual fire loss (from fires attributable to cigarette and cigar stubs) mark out this commodity as a fit subject for much heavier taxes.

(5) *Customs.* The protective tariff is destined to play a smaller and smaller part in our budget. We are beginning to realize that if we will sell abroad we must buy. A "tariff for revenue" would have to be placed on some item of general consumption, such as coffee, and this sort of tariff, for political reasons, is not likely to be enacted.

Customs duties should, from the standpoint of national welfare, form but a small fraction of our income, which is the case now. The present five or six per cent of the total federal revenue coming from this source might well be reduced to even lower terms.*

These five taxes then—income, inheritance, corporation, consumption, and customs—should furnish the federal revenue. The first three should also furnish the states a large share of their revenues.

STATE AND CITY REVENUE

As just stated above, the state should secure jointly with the Federal Government revenue from three sources—incomes, inheritances, corporations. Complete separation of state and local sources of revenue is one of those tax shibboleths which is now in the discard. There should be some separation but not complete separation. Hence the state revenues collected from the three sources named above should in part be distributed back to the local subdivisions. In most cases (except to rural school districts) revenues should be distributed back on the basis, so far as practicable, of the amount collected or earned in that district.

Land Tax. The big source of revenue left untapped by the Federal Government is of course the land tax. In theory the "unearned increment" of land is a fit subject for taxation. Possibly this theory has some validity for city land, but for farm land it is difficult to see the justice of it or the feasibility of applying it. The pioneer who has seen the largest "increment" in the value of his land feels that the years of privations and hardships have earned him this increment. The exemption from taxation of all improvements on land (and all forms of personal property) is a desirable goal

towards which to travel. Ample revenues can be secured from the land taxes plus the three forms of taxes named first above.

It is not necessary or desirable to enter into a discussion of those various forms of fees and licenses which are now in use in the average American

city. The aim of this article is to state in broad outline what seems sound in principle and workable in practice. The chief emphasis has been thrown on two things,—the federal tax system, and coöperation between the federal and state governments.

The State Tax Commission and the Property Tax

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THE property tax has been the most important single source of revenue for state and local purposes throughout the greater part of its career in the American colonies and states. This superiority has been maintained in recent times notwithstanding the tendency to diversification of revenue sources, the development or amplification of other taxes such as the income tax, the inheritance tax, and the multitude of corporation taxes. Thus, for the cities of more than 30,000 population, for which financial data are published by the United States Census Bureau, the property tax yielded 61.4 per cent of the total net revenue receipts in 1903, and 64.2 per cent in 1918.¹ For state purposes in all states the proportion of total net revenue receipts contributed through the property tax was 58.7 per cent in 1915 and 50.6 per cent in 1919; although two states, Pennsylvania and Delaware, reported no state receipts from this source in the latter year and the amounts obtained by several other states were trifling, due to the policy of separated sources of state and local revenues.² If we in-

clude the revenues of all other local subdivisions, such as the county, the village, the township and the school district, the proportion of total revenues derived from the property tax in every state becomes even greater. The property tax provided 76.4 per cent of all county revenue receipts in 1913, and 61.1 per cent of all revenue receipts for all incorporated places of 2,500 population and over.³ It is quite evident, therefore, that the property tax has been and will continue to be the great foundation of the local revenue system of the American states and that it is, generally speaking, the most important single resource for the state governments, notwithstanding the extent to which segregation of state revenue sources has been carried.

In view of the present and probable future importance of the property tax, the problem of its efficient and equitable administration becomes one of the most important and significant phases of state and local tax administration. There is quite as much at stake in improving the operation of the property tax as in any other line of administrative reform in taxation that may be undertaken. Obvious as this truth is, there are some states in which it has

¹ United States Bureau of the Census, *Financial Statistics for Cities*, 1918, p. 54.

² *Ibid.*, *Financial Statistics of States*, 1919, p. 89.

³ *Ibid.*, *Report on Wealth, Debt and Taxation*, 1913, pp. 298, 658.

never been perceived, if one may judge by the emphasis, or lack of emphasis, upon tax administration in the tax legislation of recent years. Indeed, the story of the development of tax administration shows that a proper understanding of the real nature of the problem has been gained only with difficulty and only after a long period of costly experiments and more or less stupid blundering. Slow as this development has been, it has produced at last a system of tax administration that is competent, under proper conditions, to administer the property tax with as high a degree of equity and efficiency as may reasonably be expected in the operation of a tax system. I have sketched elsewhere the rise of the modern tax administrative system, and it is my purpose here to review briefly the conditions which must be observed if the administrative organization is to function at its highest efficiency in the supervision and control of the property tax.

THE ADMINISTRATIVE DEVELOPMENT

The administrative development to which reference is made is that which has resulted in the appearance, in upwards of forty states, of a state tax commission, consisting in a few cases of a single commissioner, in one or two others of a board of five, but in the majority of cases of a board of three members. The powers and duties of the state tax commission have sometimes been determined by the course of events in a given state, but in general these commissions have been responsible for at least three principal fields of tax administration: First, the equalization of assessments for the equitable determination of the basis of direct state and local taxes; second, the administration of various taxes on corporations, and of income, inheritance and other taxes of a state-wide

nature when these have been introduced; and third, the supervision of the local officials during the process of original property assessment.

In connection with each of these fields their duties have usually been two-fold, administrative and quasi-judicial. That is, as administrative officers they have actually determined valuations, either by a process of checking, revising and correcting local figures, as in the state equalization, or by an original appraisement and assessment as in the case of the *ad valorem* taxes on corporations or in reassessment proceedings. They have frequently been constituted also the board of review or of appeals with both original and appellate jurisdiction. In this capacity they often sit in judgment upon the results of their own valuations of corporate property, and upon the work of the local officials, as this is brought to them either directly or on appeal from the local equalizing and reviewing authorities. These reviews, whether of their own assessments or of the returns from the local officials, by no means prevent recourse to the courts, but the facts established by the commission usually constitute a *prima facie* case in any subsequent legal proceeding.

The relative importance of the functions of the tax commission, as well as the emphasis upon the administrative or the quasi-judicial point of view, varies considerably in different states according to the course of development of the local tax system and according to other local factors, political and otherwise. From the experience and practice of some of the more successful states, we may determine the powers and duties which the tax commission ought to possess for the proper administration of the property tax, and to the exercise of which there should be no impediment or obstacle.

of political partisanship, local special influence or of any other sort.

These powers and duties relating to the property tax may be summed up as follows, placing them in the natural order of their exercise in the course of the operation of this tax: First, the supervision of the original assessment process; second, the review and equalization of the original returns, or of the returns from the lower equalizing and reviewing boards; and third, the initiation and direction of reassessments, and, if necessary, of removal proceedings against delinquent local officials. Not all of the tax commissions possess adequate authority in all of these fields, but experience shows clearly enough that these are minimum requirements. Their proper realization requires such degree of legislative coöperation as will permit the organization of a proper type of local tax administration and such measure of coöperation on the part of the executive as will insure fearless, impartial and intelligent administration by the tax commission. Needless to say, it is far from easy to provide and maintain these ideal conditions, and it has often come about, therefore, that the state tax commission has had to perform its work under handicaps that have permitted only an indifferent attainment of the standards set before it.

The experience of Ohio affords an illustration in point. When the tax commission act was drafted in 1910, chief emphasis was laid upon the work of original corporate assessment, since the tax commission was apparently thought of mainly as the successor to the series of boards of corporate assessment that had been created during the preceding seventeen years. Comparatively little stress was laid upon the task of local supervision, although the conditions of property assessment under the old order should have been

a sufficient warning against this attitude. There was general confidence, however, in the efficacy of the program of separate sources of state and local revenue as a remedy for the evils of the state equalization as it had been practiced, and the commission itself took its cue from the statutory emphasis. The administrative provisions of the tax law were changed by each succeeding biennial legislature to 1917, and no administrative policy was allowed a fair trial. As a result, the tax commission was obliged to mark time, an attitude which was not wholly discouraged by the chief executives during this period, and in 1920 there were many counties which had undertaken no general reassessment of real property since 1910. The commission ordered a general reappraisal, an act unquestionably within its statutory powers, but the counties had been free of any effective central supervision for so long that they felt perfectly competent to question the commission's authority. In response to the storm of protest the governor requested a reconsideration of the order, the opponents of revaluation rallied their forces, and the order was blocked, thereby setting at naught the full value principle, the most fundamental rule of property taxation. With an adequate conception of the importance of the property tax and a proper concern for its equitable operation such a situation could never have arisen. Under it the counties which have observed the law are being heavily penalized this year (1921) because of the recent rapid increase of the state direct tax, and some of them are already taking steps to bring about a competitive reduction of their duplicates in order to lessen or avoid this penalty in future. The progress of a decade is in danger of being undone by reason of lack of courage and of vision on a fundamental issue.

CENTRALIZATION

The work of the tax commission in connection with the property tax naturally begins with the original assessment by the local officials. Much has been said in favor of a complete centralization of this assessment procedure, and it was actually undertaken in Ohio in 1913, but that law stood only until the next session of the legislature. There is everywhere in the United States a natural and logical preference for local autonomy and a varying degree of prejudice against excessive centralization of administrative authority. The state tax commission has had to recognize these antipathies and often to secure its results in the face of a considerable local opposition. Because of the nature and history of our institutions a complete centralization of the assessment process would doubtless be unwise; and it would certainly be unnecessary so long as a proper degree of supervisory control can be assured and a sufficient opportunity is afforded to the tax commission for leading and guiding the local assessors in determining the original assessment.

The most important problem of supervision is the establishment and maintenance of proper standards for the local assessors. The tax law and even the constitution of many states contain phrases to the effect that property shall be assessed at its true value in money. Even in those states which have legalized assessment at a percentage of full value, the latter concept is the vitally significant one rather than the result of the percentage calculation. But the phrase "true value in money" is a lifeless expression to the average local assessor until it has been vitalized by the inspiring instructions, counsel and admonitions of the tax commission. Optional ac-

ceptance of the commission's suggestions is always damaging, as the experience in Washington has shown. The assessor accepts the more willingly the advice and leadership of the tax commission when he is fully aware of the iron hand within the velvet glove. The possession of mandatory powers is an excellent guarantee against the necessity for their frequent use, and the tactful tax commission will always seek to establish a relationship with the local assessors based on mutual confidence rather than on compulsion. The commission's principal task is to keep the assessors thinking in terms of full value assessment and it requires eternal vigilance to sustain them on this elevated plane of simple compliance with the law.

The tax commission's responsibility for the maintenance of the proper legal standard does not stop with advice and suggestions, but extends to the development of various practical methods and the prescription of the necessary equipment for the proper assessment of property. The morale and aggressive enthusiasm of the assessors are sustained by conferences of officials at the state house, district gatherings under the leadership of a member of the commission, and visits to the counties and the assessment districts. Through these and other channels the information which comes to the commission regarding property values is disseminated, the tax law is construed and made plain, the proper use of the prescribed record books, blanks and forms is explained. In many states there are complete land maps available for the proper listing of real estate, and some of the commissions have prepared elaborate instructions to guide the assessors in assessing buildings, merchandise and other forms of property. The Wisconsin commission has set an admirable standard in this respect.

The most active supervision of the original assessment will not wholly suffice, however, for the detection and correction of all inequalities in valuation. The tax commission should possess extensive powers of review and equalization which should not stop at a mere adjustment among counties, but which should extend down to the local taxing districts, to any class of property, and, if necessary, to the individual assessments. The mere possession of such powers is in this instance also insurance against the necessity of excessive use. If the tax commission is actively equipping itself with such knowledge of the facts as will enable it to check up and correct the local return, the very existence of these data and the possibility of their use act as a powerful incentive to the local officials. The increase in the achievements of the Wisconsin assessors as a result, in part, of the vigorous equalization by means of the sales method, is an excellent illustration of the value of preventive measures. The tax commissions in Kansas, Michigan and Minnesota have also demonstrated very effectively the value of thorough-going powers of equalization and review.

Finally, there may arise cases in which neither supervision nor equalization after the fact will suffice. The tax commission's responsibility for the equitable operation of the property tax can not be fully met without the further authority to order or initiate reassessment proceedings, or even to effect the removal of the local assessor when this seems necessary. The results of the reassessments undertaken in Wisconsin and Minnesota reveal the value of such authority and the wisdom of granting it to the tax commission. Removals will be infrequent for, in general, the local officials are willing and anxious to do their work properly,

provided it is made easier to do it in this manner than in a slipshod and indifferent manner. The right of removal is very important, however, as a means of moral suasion and for the protection of the taxpayers themselves in the rare cases of sheer insubordination or delinquency that may be encountered, and the tax commission should possess it. It is a power which should be exercised directly wherever possible, rather than by bringing the case before a court, as may be required by some state constitutions.

The possession and exercise of these rather drastic powers of administrative oversight and control do not and should not militate against any proper exercise of the principles of local self-government. The assessors and other local officials may be elected or otherwise chosen by the people of the district in which they are to serve. The removal of these officials will be resorted to only in the most extreme cases and under such circumstances that the best interests of the electors themselves will be served by such action. The correction and adjustment of the original returns is in no sense a violation of local autonomy, since the locality has had a chance to do the thing properly and failed. In establishing and maintaining standards of performance in the assessment of property the state is going no further in tax administration than it has gone in many other lines of social endeavor, and the test of the wisdom of such centralization must be, in taxation as in other fields, the maximum advantage for the whole people.

While this program does not militate against a proper conception of local autonomy it does, however, emphasize the importance of adapting the local organization to the fact of central control in such a manner as will yield the best results from the policy of state

supervision. The plan of small assessment districts, with an elected assessor who attends to the task of property assessment for a few weeks or months only during the year and for a very small *per diem* compensation, does not permit the best results from the property tax, whether there be state supervision or not. Under such circumstances, much of the commission's supervisory authority is wasted, for the local personnel changes frequently and there is little enough incentive at best to develop and maintain a genuine interest in the work. The task of equitable and efficient property assessment is sufficiently important in practically every part of the United States to warrant the development of a type of local administrative organization that would be adequate to this task. This means larger assessment districts, a much more competent personnel with much higher salaries and much greater security of tenure than are provided at present in many places. Under these conditions, the tax commission would be able to build up traditions of achievement and would be able to rely upon the cumulative effect of its instructions and guidance. The assessment of property would be a continuous process, performed by a skilled staff who were employed the year round in collecting the data upon which to base the official assessed valuation. Usually the county would be a unit sufficiently large to permit the establishment of such an organization, with a county assessor in charge. In some rural sections a grouping of counties might be necessary, in which case there should be a district assessor in general charge, under the direct control of the tax commission, as all of the county assessors should be. The county or district assessor becomes the logical person through whom the tax commission

would administer other taxes as these develop, such as the income tax, the inheritance tax and others. In Wisconsin the income tax assessor has been made the county supervisor with administrative responsibility for the property tax as well as for the income tax.

CONCLUSION

In view of the present and probable future importance of the property tax and of the state tax commission in the administration of this tax, it seems reasonably safe to conclude that the latter will continue to be a recognized part of the state administrative organization. Sporadic instances of reaction appear from time to time in different states, inspired on some occasions by the exigencies of shifting political control and on others by the cheerful idiots who usually abound in state legislatures, ready to introduce any and every sort of ill-considered measure. Generally speaking, attacks of this sort will be estimated at their true worth by any sensible legislature.

More serious are some of the proposals for disposing of the tax commission that have been advanced in connection with various recent plans for the reorganization of state governments. These proposals have usually suggested either a single tax commissioner instead of the board of three, or some degree of subjection to a department of finance which is usually to be under the general headship of a director of finance.

I have elsewhere summarized the case in favor of the board or commission of three members, as against either the single tax commissioner type or the larger board. While the single commissioner type has been very efficient in some states, notably Massachusetts and Connecticut, the balance of the argument seems to be in favor of the

commission of three members, chosen on the basis of their qualifications and without regard to their political affiliations, but with a long tenure of office and an adequate compensation.¹ In my judgment the case is clear in favor of the commission of three members in all of the states larger in area, population and wealth than the New England states. One tax commissioner is better than none, but it would be a backward step and a false economy to reduce a commission of three to this type. Such a move would inevitably mean a more complete delegation of authority and responsibility to clerical subordinates, greater overloading of the man at the top and lessened efficiency. The loss would be especially apparent at any change of incumbency.

It would be even more unwise to subordinate the tax commission to a director of finance in a department of finance. The commission would thus become simply one of many bureaus and its members would be demoted to mere clerkships, a position of dependency and subordination which would effectively deprive them of all opportunity for inspiring guidance and leadership, and of practically all corrective and coercive authority. As the functional head of the tax system, the tax commission may be regarded with respect and its leadership followed with confidence. As a clerical division it could hardly inspire either respect or awe, while it would be deprived of all opportunity for leadership. The prestige value of its position as an independent state board, subject to no outside influence and control, is an important source of the tax commission's power. Clerical subordinates would be about as successful in generating genuine enthusiasm and respect for the full value law among the asses-

sors as hired mourners would be in arousing sympathy at a funeral.

The reorganization code recently introduced into the Ohio legislature apparently preserves the independence of the tax commission, but in reality destroys it in large measure by requiring that the director of finance shall be, *ex officio*, secretary of the commission. Since the director of finance is appointed by the governor, for a term not longer than that of the chief executive, it is evident that such an arrangement ties the commission's hands in an exasperating way, while at the same time it opens the door for all manner of subtle influence on the commission from the executive chamber. The staff of the commission is considered to be in the department of finance, except insofar as the governor may decide that employes or experts shall be outside this department. With these points of vantage, the governor and the finance director will properly regard the tax commission as a mere appendage to the finance department, and the assessors will not be long in discovering the same fact.

It is impossible to find in the program of the separation of the sources of state and local revenues an adequate ground for depriving the state tax commission of its responsibility for the results of the local assessment. Even in those rather rare instances in which the separation has been absolutely complete the whole necessity for an equalization is not removed. There remains the problem of an equitable distribution of the local tax burden as among the various taxing districts of the county and as among different classes of taxpayers, especially individual and corporate. And to the extent that the separation is only partial, which is by far the more common and familiar situation, the

¹H. L. Lutz, *Ap. Cit.* ch. iv.

necessity for central supervision and equalization becomes the more compelling. The inelasticity of the indirect sources of state revenue compels, sooner or later, a return to the property tax as a source of state revenue. It is rather futile, therefore, to rely on separation to secure indefinite postponement of the obligations which are involved in the property tax.

The experience of Ohio may again be cited. Here the condition of local assessment during the decade after 1910 was condoned in a spirit of blind reliance on the policy of complete separation of revenue sources, and the undervalued counties were allowed to remain low through this period on the ground that no harm was being done. The inadequacy of the sources of state revenue forced resort to the direct property tax, and various projects are pending, including the soldier bonus, which afford little real prospect of permanent reduction by this tax. Equalization and effective central control became important just as the *laissez faire* policy was triumphing, and we are in this state beginning to reap the penalty of substituting segre-

gation for vigorous administrative methods and a proper conception of leadership in taxation.

Throughout this article I have defended the idea of state control of the operation of the property tax, with a reasonable degree of centralization to that end. I am not contending, however, that administrative improvement will wholly obviate the necessity of improvements in the tax system. On the other hand, all the evidence points to the conclusion that the efforts of the state tax commissions to compel the listing of intangibles for taxation as property at high local rates have been little more successful than the unaided efforts of the local assessor. In other words, centralized administration, however drastic, is not the whole solution of the difficulties of the general property tax, that is, the uniform rule. It is equally clear, though, that the successful operation of any system of property taxation can not be achieved without adequate administrative control, so that we find the tax commission an essential feature of the administrative structure, whatever the changes in the form of the tax system itself.

The United States and the Payment of an Indemnity by Germany

By FRANK PLACHY, JR.

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IT is curious how little attention is being paid in the United States to the possible effects on this country of the payment by Germany of a reparation indemnity to France, Great Britain and the other countries which expect to share in the gold, goods or services which Germany may be compelled to give up. This lack of interest is not confined to the United States, but typifies the press of England and the other European countries, in all of which there is apparently a general agreement on the part of the press and public that the United States, having allegedly profited more from the war than any other country, should pay more of the costs of repairing the damage than any other.

In the sessions of the various meetings of the premiers at Paris, Spa, Boulogne and London, the economic interests of the United States in the means adopted for securing the indemnity have been absolutely ignored. But it is clear to everybody that the peace settlement is not a matter of boundaries or nationalities but of economic agreements, and that the manner in which those agreements are made and carried out is a matter of profound and far-reaching importance to every industry and every individual in the United States. There appears to have been a general unanimity of opinion among those who have taken part in these conferences that the main interest of the United States is to obtain repayment of its loans to the Allied countries and that any means that will rehabilitate the industries of

France, England and the others in order that the debt may be paid ought to be accepted by this country.

But the world is an economic unit and we are the largest integral part of that unit. It is all very well for a group of European statesmen to formulate their plans, but economic laws will assert themselves in spite of any man-made attempts to circumvent them. No economic law has been more often demonstrated than that great losses of wealth fall on those who possess the most. When a great calamity such as the world war takes place, followed by a period of inaction and disorganization, there is a tremendous destruction of capital and of consumable goods. This loss can not fall on those who have nothing; it falls where wealth exists in the form most easily reached. In the present world situation there is more available wealth in the United States than in any other country and it may be safely assumed that, during the next fifty years, this country will pay most of the cost of the recent conflict, just as it paid most of the French indemnity to Germany in 1871. This payment will be exacted from us in many ways, but its most clearly discernible effects will probably come through a reduced standard of living in this country, accompanied by gradually falling commodity prices for a considerable period. In 1871 commodity prices, considered in connection with the purchasing power of the monetary mediums then in use, started on their long decline in this country because of the opening up of great areas

to agricultural production and the quick and easy delivery at the seaboard of the product of these American farms. The fall in prices, which is probably now well started, will be due to the two-fold causes of decreased purchasing power through world poverty and the super-production of manufactured goods that will result if the present policy of the Allied nations in collecting the indemnity from Germany is carried out.

Professor Simon N. Patten and other economists have shown clearly in their writings that neither industrial losses nor gains can be localized. Debts and losses are actually paid in the end by those whose industry is hardest hit as the result of capital sunk and lost unproductively. The European war caused the greatest loss of capital the world has ever seen, and the important point is that while the loss has been sustained it has not yet been paid for. In other words, the process of liquidating this debt, which as an economic problem is not concerned with national boundary lines, has not yet started nor have plans yet been made that will accelerate the process.

THE ECONOMICS OF INDEMNITIES

Concerning the payment by Germany a few things may be noted: The indemnity must be paid in gold, goods or services. Germany has no gold, practically speaking. If the payment is made in goods, a market for the goods must first be found. If the payment is made in services, for instance, by the employment of large numbers of German workmen in the urgent task of rebuilding the devastated zone in northern France, nearly all the difficulties encountered in securing payment by means of the first two methods are immediately removed, and advantages of an obvious character take their place.

The last-named manner of paying for Germany's destruction of France's great industrial district appeals to the best American public opinion as the manner in which the greatest advantage would accrue to France, which is to get 52 per cent of the total indemnity payment, while at the same time it would exert less effect than any other method in retarding the economic stabilization of the world and it would be less likely to exert a harmful effect on the industries of the United States than any other method.

It is obvious that if Germany is to pay the indemnity through the super-production of manufactured goods, great export markets must be built up. In the present case, both England and France are determined that their markets are not to be flooded with German goods, although, indemnity aside, unemployment already exists in certain British industries because of their inability to compete with the much lower production costs of German manufacturers. Where is Germany to secure a market that will absorb such tremendous quantities of goods as will allow the creation of favorable balances and the eventual transfer of these balances to France, England and the other participants in the payments? Clearly, public opinion in both France and England regards the United States as the great clearing house through which German goods may be sold and credits created.

This brings the matter to the point where it first actually touches the American people in a manner obvious to all. German goods are already coming to the United States in a steadily increasing stream and their presence here is being felt in the markets, just as they are being felt in the markets of England, Belgium, Holland and other countries. The first reaction here to these goods is a

demand for a protective tariff against German products. Whether scientific or not, and whether based on sound economic principles or on unsound propositions, it may safely be assumed that a strong effort will be made to protect the markets of the United States against competition from German goods, manufactured under lower production costs, lower living costs and the lower prices for raw materials available to German manufacturers as a result of the exchange situation.

The following table supplied by the United States Department of Commerce shows the significant trend already apparent in Germany's foreign trade and which the tariff wall will be expected, with doubtful results, to change. It shows Germany's trade with the leading countries for the third quarter of 1920 as compared with the quarterly average for 1913. All figures are in pounds sterling calculated at \$4.86. It will be seen that Germany's exports to the United States were

three times as great as to England in the third quarter of 1920. It will also be noted that while England's exports to Germany reached 40 per cent of the pre-war amount, the exports of the United States reached 70 per cent of the pre-war figure. The difficulty lies in the fact that Germany sent us manufactured goods in which labor was the chief element of value, while our exports to Germany were chiefly food and raw material, notably cotton.

TARIFFS WILL NOT REMEDY

The chief difficulty for the United States is going to be that, on a large percentage of the German goods against which a tariff will be levied, the only effect will be to increase the selling price of the goods to the American consumer. This may protect that part of our manufacturing capacity devoting itself only to home needs, but where does it leave the manufacturer who makes goods for export and who must sell them in South America, Africa or

GERMAN IMPORTS

<i>Countries</i>	<i>Quarterly Average, 1913</i>	<i>July to September 1920</i>
United Kingdom.....	\$20,103,000	\$8,751,000
Belgium.....	7,618,000	9,380,000
France.....	10,688,000	33,057,000
Italy.....	6,127,000	6,469,000
Japan.....	1,745,000	845,000
United States.....	9,694,000	6,798,000
India.....	1,798,000	12,120,000
South Africa.....	841,000	381,000
Canada.....	708,000	82,000

GERMAN EXPORTS

United Kingdom.....	\$10,169,000	\$4,591,000
Belgium.....	9,404,000	13,297,000
France.....	8,668,000	7,612,000
Italy.....	3,434,000	2,750,000
Japan.....	335,000	45,000
United States.....	18,330,000	14,011,000
India.....	4,542,000	1,200,000
South Africa.....	503,000	32,000
Canada.....	184,000	173,000

the Far East in open competition with German and other European manufacturing nations? The tariff against German goods may protect part of this country's manufacturers, but it inevitably will tend to keep up the cost of living and will make it impossible for the export manufacturer to turn out his goods cheaply enough to assure their being sold in the foreign field. Thus, if the situation has been correctly stated here, little permanent hope ought to be placed in a high protective tariff either for protecting American markets or assisting the world back to an industrial and economic equilibrium.

Great discord exists in Europe concerning the 12 per cent so-called tax on exports of German goods to be levied as an additional indemnity. This tax has attracted little attention in the United States, but in many newspaper and magazine articles it appears to be assumed that the tax is actually to be levied directly against the exports; that is, that German exporters would have to add that amount to the selling price of their goods, thus removing to that extent the differential now existing in favor of the German manufacturer by reason of his lower production costs. The facts in the matter are quite different. The Allied nations in assessing this additional indemnity simply used the total volume of German exports as a barometer by which the amount of the tax is to be calculated. The German Government is to pay it and it is given entire latitude as to means of recouping itself. It may levy a tax on liquor, tobacco or anything else in order to raise the money for this payment; or it may assess an actual export tax graduated in such a way that the products of which Germany has nearly a monopoly must pay most of it while products which are actually competitive with

other nations would be lightly affected. In other words, the so-called export tax is not an export tax at all and bears no relation to export in case the German government should decide to raise the money in some other way. Thus, it would appear that those in this country who have assumed that the 12 per cent German export tax would be the practical equivalent of a 12 per cent import tax levied by this country against German goods have been ill-informed.

In a way, the position of the United States at this time is not unlike that of England at the close of the Franco-Prussian war. France paid the indemnity to Germany by means of bond issues which it exchanged with its own people for the bonds representing their foreign investments. These foreign investments were then sold, principally in London, and the credits thus created were transferred in the form of goods, gold or commercial bills to Germany. One of the first effects after this large sum of liquid capital and great supplies of raw materials were introduced into Germany was to spur the export trade of that country, the result being that England, with no direct part in the war, was flooded with cheaply produced German goods, with resulting unemployment and industrial slackening.

EFFECTS ON THE UNITED STATES

At the present time, the United States is threatened with the same experience that England had after the Franco-Prussian war, with the added complication that we have done a large part of the financing of destruction and now appear likely to assume the financing of reconstruction whether we wish it or not. We contributed, in an economic sense, to an orgy of wealth destruction so great that no nation or group of nations can ever hope to actually pay for the large damage

done, but insofar as the damage is repaired, it will be paid for by those whose wealth is the greatest. This payment will be exacted by means of the general lowering of values which will take place through falling prices and through the inability of the world to resume, at least for a long time, its normal buying and consuming habits.

If the beliefs herein expressed are sound, it is clear that the United States will be damaged by the turning out on the part of Germany of a great volume of cheaply-produced manufactured goods with which to create credits for transfer to France, England and others. It is clear that we require greater markets for our permanent prosperity than those within our own borders, but if we keep up our domestic manufacturing costs and the selling prices of our goods, we automatically shut ourselves out of the competitive export field. A protective tariff protects only some of us, while the tax to be assessed as an additional German indemnity can not be said to be a protection at all.

What, then, remains as a remedy by means of which Germany may be made to pay, but which will also protect American industry from unjust discrimination in order that France may collect and which will also not retard the restoration of normal conditions throughout the world? Assuming, as nearly all do, that Germany has the ability to pay, but that the problem lies in securing satisfactory means of transferring the payment, the whole matter resolves itself into a question of foreign exchange, if payment is to be made in goods, or a monetary question, if payment is to be made in services. The first will involve the world and will retard recovery everywhere, the second will be a purely domestic matter for Germany in which outsiders will have no concern.

It is a profound error to say that such

a huge debt as the German indemnity can be paid only in goods. Debts can often be more easily and satisfactorily paid in services than in goods and the present instance presents such a case. If Germany, instead of being compelled to build up for herself the world's most efficient industrial machine in order that goods may be manufactured and sold for the purpose of making indemnity payments, is allowed to use the labor and materials of her own people in rebuilding northern France, every objection that might be raised in the United States to the manner of paying the indemnity would be removed.

The difficulty with the present plan of compelling Germany to sell goods throughout the world is that in the end it helps Germany more than anyone else. After the debt has been paid, or after Germany finds herself strong enough to refuse further tribute, the statesmen of France and England may find themselves confronting a creature of their own making which will be intent on their destruction. Divesting the indemnity of all elements except those that are basic, and looking at the actual possibilities of the case from every angle, it is apparent that Germany can pay only in work. This work may be performed in German factories and then done over again in the seeking of markets and the means for the transference of the resulting credits to France, or it may be done directly in northern France. The demand for large, annual contributions in cash is, in the present case, a political and not an economic demand, and there are signs that outside of political circles the people of France are beginning to see this problem in its true light.

If Germany is compelled to sell goods made in its own factories in order to raise cash for the indemnity

payments, then it will be inevitably constructing a marvelously efficient industrial machine which will remain to turn out goods after the necessity for making indemnity payments has passed. On the other hand, if Germany is allowed to do what it has already offered to do, that is, pay off a considerable share of the indemnity by means of the labor of its people directly expended on reconstruction or any kind of construction work in northern France, it is France that will possess the industrial machine. Germany will then be able to convert a considerable part of the indemnity problem from an international question to one that is purely domestic. It can pay the workers in its own paper money, which is good in their hands but in no one's else, and it can purchase construction material in the same way.

The folly of not doing this is incredible. Lack of labor no less than lack of funds is delaying the rebuilding of the devastated regions. It is a fact that while workers are idle in Germany, thousands of Italian and Spanish laborers are engaged in the work of rebuilding northern France. These workers remit a large share of their wages to their home countries, thus aggravating the abnormal condition of the French exchanges. German workers, on the other hand, would absolutely remove this obstacle to exchange rectification and would accelerate more than by any other conceivable plan the actual and vitally important work of rebuilding homes, factories, roads, canals and all other manner of construction needed in the occupied zone. The following quotation from the Paris correspondence of the *London Economist* dated January 18 is in point:

That the demand for certain kinds of labor in this country is still great is seen by

the fact that large numbers of Spanish and Italian workers are constantly employed in the devastated departments. Practically the whole of these belong to the unskilled categories, and are engaged in the preliminary work of restoring farming land to cultivation and the construction of roads, etc. The evil that has to be feared in this country as time goes on and it becomes possible for the work of reconstruction to be taken in hand in earnest is a serious scarcity of labor, that will probably prove as great a hindrance to complete economic restoration as the present lack of funds to meet the necessary expenditure and the high prices of all kinds of raw materials.

In this connection it must be remembered that France lost 57 per cent of all its young men between the ages of seventeen and thirty-one during the war, so that the supply of workers on whom industry may draw has been sadly depleted. After a two-months' inquiry, it is now announced (March 21) that the Conferation Generale du Travail, which corresponds to the American Federation of Labor, has decided to favor the importation of German workers for reconstruction work. Labor leaders are said to have announced that if dependence were to be placed wholly on French labor for this work, it would take another forty years to finish the job. If this plan goes into effect, no financial operations will be necessary and Germany will simply be credited with the amount it pays out in its own money for wages and for material. Thus the necessity now confronting France for raising large reconstruction loans would be lessened and the strain on the financial community lightened to that extent.

All in all, it would appear clear that America's interest in this matter is very definite and plain. We are interested in helping the world to get back to normal. We understand full well that whatever settlement is ar-

rived at with Germany must be inevitably reflected in the United States, since we are now taking far too great a part in the economic organization of the world not to be affected by whatever happens in the dealings between Germany, France, Great Britain and the others concerned. This country has put up probably fifteen billion dollars since the European conflict began, counting governmental credits and private commercial advances, and if unsound principles underly the indemnity agreement it will mean that the depreciation of values in the United States will make it necessary for us to pay this sum twice over.

What ought to be done is to keep

the entire matter as much a domestic problem for Germany as possible. Prosperity begets prosperity, just as depression contaminates its neighbors like a rotten apple in a barrel. The world can not be prosperous unless economic peace reigns in Europe, and Europe can not approach such a peace until Germany is normally at work. Without the restoration of Europe it is hopeless to expect any decisive return to the fully employed condition of industry in this country that Americans would like to see. Therefore, whatever decisions are arrived at in the next conference on the indemnity should receive much more active attention in this country than has characterized any of the discussions so far held.

The Principal Factors to Be Considered in Connection with the Cancellation of the European Indebtedness to the United States

By C. E. McGuire

Washington, D. C.

THE Ministries of Finance of the world have had to conduct their inventories of national financial resources in recent years under conditions of exceptional difficulty, and the official reports even of some of the larger countries, to say nothing of those whose sovereignty has only lately been recognized, have not been published and made available as early as usual. But the budgetary speeches have had to be made, and these, together with official memoranda such as were filed at the Financial Conference in Brussels (September 23 to October 8, 1920), have furnished some material for quasi-official reports, for the publications of public and private banking institutions and for numerous studies of individual students of public and

private credit. While I shall not have occasion, from the very nature of the considerations that I am advancing here, to present any exhaustive series of quotations from this material, I believe I may fairly say that an official source can readily be pointed out for all the figures which I have occasion to give,—a source in no case confidential, but, on the contrary, available to any who could have occasion to consult it.

With a view to approach the subject in an orderly way, let me first indicate the amount and origin of the indebtedness. Then it will be proper to discuss the economic significance of this indebtedness, its relation to the stability of governments and to the orderly conduct of business throughout

the world, and the alternatives of policy which the world is facing.

It is clear, of course, that in so short a time we can not analyze budgets, or attempt to show in detail the alarming proportion of public revenue still being devoted to preparations for war. We are concerned with what is to be done with the cost of past wars, and, in a very general way, with the way in which the nations are going to be safeguarded from further unrestrained preparation for war. Moreover, the few figures I shall submit are not extreme; still deeper colors could be used in a more detailed study.

THE BRITISH DEBT

The British' National Debt, funded and unfunded, is declared in parliamentary papers (Cmd. 1024, 1920, and Return 240, December 15, 1920) to have stood on March 31, 1920 at £7,828,779,095, an amount greater than the debt as it stood March 31, 1919, by £397,126,574. But the British Government has certain obligations additional to its funded and unfunded debt (*pp. 10-13 of Cmd. 1024*), which amounted on March 31, 1920 to £46,862,866. The aggregate gross liabilities of Britain were calculated at £7,875,641,961. Converted at \$4.86, this sum would represent approximately thirty-eight and a third billion dollars; but if converted at something like recent sterling exchange rates (say \$3.75), it would represent approximately twenty-nine and one-half billion dollars. The figures, not all official, for the current fiscal year (until March 31, 1921), indicate that the burden is steadily growing heavier. The *Statist* (December 18, 1920) estimates the gross liabilities of Britain as £7,881,893,000, and it is known that the floating debt is increasing. On March 31, 1920, the floating debt was £1,312,205,000; on December 31,

£1,408,081,000. Furthermore, none of the figures accessible take account of the enormous aggregate of claims against the British Government—claims of every description, and in every stage of formulation and validation, railroad and shipping claims, prize court claims, and property claims. While the total value of these liabilities will not have to be provided at a given or an early date, they constitute, none the less, an appreciable drain on the British national finances.

Against these liabilities there are recorded, in addition to the potential wealth of the nation, some assets calculated with precision to reach £106,023,346, and consisting of (1) shares in various corporations, (2) shares in the Suez Canal, and (3) French and Indian obligations. Other assets amount to £700,000,000, and consist of: (1) advances to the Colonies, Allied Powers, and the like, and (2) surplus stores, ships, and other war supplies. From time to time, of course, parliamentary debates disclose certain details in reference to these advances and other assets; and treasury statements frequently submit itemized figures. A fairly recent one is shown on page 292.

On May 19, 1920, the Chancellor of the Exchequer stated that the indebtedness of France to England was in the neighborhood of £500,000,-000. On November 23, 1920, it was stated that Serbia had been lent £21,000,000 during the war and £1,500,000 since the war, for which that country undertook to deliver obligations bearing 5 per cent and 6 per cent, respectively. The figure of £700,000,000 is assumed on a basis of a very low realization on the loans (with their par values of £1,850,500,-000) and low prices for war material. During the nine months ending December 31, 1920, the government received £199,907,733 for surplus war stores, but

not much more is expected to be sold.

The total receipts of the British Treasury (taxation, short term notes, and all other sources) for the nine months from April 1 to December 31, 1920, were £5,136,361,498, as against

£5,382,539,454 for the period from April 1 to December 31, 1919. In order to meet the budget estimates, £529,496,272 have yet to be collected in the current quarter (January-March, 1921). Ordinary expenditures

LOANS TO ALLIES AND DOMINIONS

(Million £)

	<i>Advances during Financial Year 1918-19</i>	<i>Advances during Financial Year 1919-20</i>	<i>Total Advances from August 1914 to March 31, 1920</i>
Dominions.....	-23	-15½	119½
Allies.....	236	163	1,731
Total.....	213	111½	1,850½

LIABILITIES

(Million £)

	August 1, 1914	March 31, 1917	March 31, 1920
Funded Debt.....	588	318	315
<i>Unfunded Debt:</i>			
Term Annuities.....	30	24	19
3½% War Stock.....	....	63	63
4½% War Stock.....	....	20	13
4 and 5% War Stock.....	....	1,962	2,041
National War Bonds.....	....	....	1,477
4% Funding Loan.....	....	....	409
4% Victory Bonds.....	....	....	360
Treasury Bonds.....	....	....	....
Treasury Bills*.....	15	464	1,059
Exchequer Bonds.....	20	320	319
National Savings Certificates.....	....	74	275
War Expenditure Certificates.....	....	24	....
Other Debt.....	....	317	1,229
American Loan.....	....	51	51
Temporary Advances.....	1	217	205
Other Capital Liabilities.....	654 57	3,854 53	7,835 47
Total Liabilities.....	711	3,907	7,882

*Excluding bills held as collateral for loans payable abroad and included in external debts.

chargeable against the period from April 1 to December 31, 1920, reached £842,689,719, as compared with £1,225,980,718 for 1919.

The obligations of the British Government due to foreign governments appear to be those held by the Government of the United States, stated at \$4,212,835,992 on March 31, 1920, in the British Treasury report, and at \$4,196,838,358.44 of principal, and \$314,582,824.97 of interest, on November 15, 1920, in the annual report of the Secretary of the Treasury of the United States for 1920 (*pp. 54-58*); by the Canadian Government, \$181,000,000; by the Argentine Government, 96,000,000 pesos gold; by the Uruguayan Government, 23,800,000 pesos gold; by the Japanese Government, 96,000,000 yen; and, finally, by various other governments,—some of which are described as “allied” and others as governments of British colonies,—the total of the obligations in this last group amounting to approximately £122,000,000 at par.

With the large amount of indebtedness to individual citizens rather than governments of other countries, we are not concerned. The magnitude of these obligations of England to private persons abroad may be estimated from a statement by the Chancellor of the Exchequer on December 20, 1920, as to the sums maturing for payment abroad in the years 1921-1923:—

In 1921, \$20,850,000 worth of 3 months Treasury Bills in the United States; 50,000,000 yen worth of Japanese 12 months Treasury Bills; \$100,000,000, Canadian Bankers' Loan; 12,500,000 Swedish Kroner; \$28,590,000 of Japanese Treasury Bills repayable in United States Currency; and finally, \$129,048,000 of 5 year notes issued in United States; in 1922, \$95,000,000 worth of 3 year notes in United States, and \$40,000,000 of Canadian Bankers' Loan.

It may be noted in passing that the

only payments on debts to foreign governments mentioned as contemplated in the same years are \$121,500,000 to the United States Government for silver purchase (under the so-called Pitman Act), 30,000,000 gold pesos to Argentina, and £538,000 to the Government of Mauritius.

I have referred to the indefiniteness of official statements as to the amount of the obligations to Great Britain of other countries. It would seem as if, within a year after the war, the British system of accounts,—the best in Europe, if not in the world,—could have analyzed and digested all these foreign variable assets. But in England as elsewhere the reparations negotiations have left many figures much in doubt. The British Treasury report as of March 31, 1921, will clear up the character, date of receipt and application of the payments to Great Britain by Germany under the Treaty of Versailles. I find Mr. Chamberlain reporting in November:

Under the Reparation Clauses of the Treaty of Versailles, this country has been allotted up to the present time 158 ex-German steamers. Of these, 52 steamers of 257,847 gross tonnage in all have been sold for £4,991,625. This country has also received under the Reparation Clauses 1,000 tons of dyestuffs of the value of marks 40,613,600. Under the Financial Clauses the Army of Occupation has received in cash Marks 346,000,000 and in kind, accommodation and transport. Under the Economic Clauses this country has received up to the present £4,627,356.12s. 8d in settlement of monthly debit balances between the Germans and British Clearing Offices. The Reparation Commission have not yet fixed the sterling equivalent of the sums in marks referred to above.

The financial experts in England have not been blind to the seriousness of the condition of the national credit. Naturally they have not always been

successful in persuading those in control of public policy to follow their financial plans, although it must be said that Chancellor McKenna resolutely set out to impose taxes that would produce large returns. His successors, however, have appeared to drift along depending on short term financing, apparently seeking to avoid the further aggravation of economic disturbance which they think would be entailed by any thoroughgoing, drastic policy of taxation. It must not be inferred that taxation in England is in any way light. The *Statist* estimates (December 11, 1920) that the British Government in 1920-1921 is taking £30½ of the per capita national income of £112½ as against £4½ of £50 in 1912-1913.

National Income . . . 1913	£2,250,000,000
Government..... "	200,000,000
National Income . . . 1920	5,000,000,000
Government..... "	1,400,000,000

But it must be noted that of the estimated revenues for 1920-1921, £1,418,300,000 (*London Economist*, October 20, 1920) more than one-fifth (£310,756,000) is classified as special receipts emanating from numerous sources other than taxation.

A discussion of the effect on British commercial banking and investment banking conditions of this serious situation of the general credit of the country would be interesting, but as we have yet to consider some other countries and then take up the question of the disposition of the debts owed to the United States, I can only call to your attention such a significant fact as that the total new capital subscriptions for the calendar year 1920 are reported by the *Bankers Magazine* at £367,000,000 against £1,036,000,-000 in 1919; and relatively little of the 1920 amount was destined elsewhere than within England itself. To one

detail, however, I must draw your attention; namely, the debasement of the subsidiary coinage of England. All during the winter of 1919-20 this plan was discussed, and even the fall in the price of silver did not alter the determination to reduce the fineness of British silver coin from .925 to .500. The Chancellor announced at the end of December that the silver circulation of the Kingdom amounts to £60,000,-000. Of this new coinage, £7,000,000 has been minted.

THE FRENCH DEBT

The balance sheets of France, Italy, and Germany make mournful reading. France is reported to have had on September 30, 1920, a national debt of 285,836,000,000 francs. The foreign debt aggregates 83,273 millions, and in part consists of half a billion pounds owed to England (payable in sterling as reported March 31, 1920), and \$2,966,028,443 (payable in dollars) owed to the government of the United States (as reported November 15, 1920).

French deficits had been accumulating before the war, and the government was only then beginning to make headway against them by resorting to an income tax. Actual use of this source of revenue was deferred until 1916 and has never been as searching as might have fairly been expected. The government income fell from five billion francs in 1913 to 3,800,000,000 francs in 1915, rising to 6,300,000,000 in 1917 and 6,500,000,000 in 1918.

Mr. Klotz states ("Situation financière de la France," in *Révue Economique Internationale*, November, 1920) that the current fiscal year would yield the following kinds and amounts of income:

	Francs
Taxation.....	17,500,000,000
Short Term Treasury	
Notes.....	14,000,000,000

Long Term Treasury Notes.....	11,500,000,000
Advances from the Bank of France.....	200,000,000
	<hr/>
	43,200,000,000

After reviewing the other assets of France, and fervently reechoing the Anglo-French declaration of March, 1918,¹ Mr. Klotz declares that France is assured of recovering her advances to her allies, which he calculates as 8,873,000,000 francs in cash and credit, and 6,925,000,000 francs in supplies. The program of "réparation intégrale" vigorously championed by Mr. Klotz and many others, is calculated to yield in the course of time more than 200,000,000,000 francs. Of this, some 136,000,000,000 francs are calculated by Mr. Louis Dubois to represent the aggregate property damages (the balance being, broadly speaking, personal damages). Able French statisticians, René Pupin and E. Michel (in the *Journal de la Société de Statistique de Paris*, January, 1921) discuss the real extent of the property damage, and while we have no time to analyze their methods and results, it is interesting to find that the "co-efficient of reconstruction" today is not less than four, which applied to the *total replacement* value (as distinguished from intrinsic and other statistical values) of all the property in the ten devastated provinces of France in 1914, calculated by Michel as 33,000,000,000 francs, would give us 132,000,000,000 francs.

The budget as submitted for 1921 but not yet approved, contemplates expenditures of 44,287,000,000 francs and ordinary and extraordinary receipts of 24,963,000,000 francs—it being intended to recover sixteen and a

¹"The obligations of Russia remain; they must be met, and shall be met by the new state, or collection of new states which may now or later represent Russia."

half billion francs from Germany, now or later, in installments, the unpaid balance to bear interest, and France herself to issue bonds to cover the deficit, which will be guaranteed by the German payments.

It was recently reported (December 31, 1920) that the French 6 per cent national loan had yielded 27,000,000,-000 francs of which 10,384,606,000 francs were new money.

The per capita figures in the *Statist* (December 11, 1920) show that of an estimated national per capita income of 3,200 francs in 1920 (as against one of 960 in 1913) the government was getting 574 (as against 129 in 1913). Taxation can perhaps sink more deeply in France than would seem to be the case if these estimates hold; but the economic balance sheet of the nation is not revealed by them alone. The ominous mass of banknotes, and of *bons de la défense nationale* and *obligations de la défense nationale* seems almost indigestible.

THE ITALIAN DEBT

The Italian debt to the United States was stated by the Secretary of the Treasury as \$1,631,338,986.99 on November 15, 1920. Italy's total national debt converted at par appears to be equal to about \$18,330,000,000. Of this, apart from the amount due to the United States, about 13½ billion lire represented pre-war debt, 34 billions the war loans, 24 billions the floating indebtedness and banknotes issued on state account.

While revenues were increasing in 1920, the deficit appears to be as formidable as ever, due largely to coal and wheat costs. Let me again cite the *Statist* in connection with the per capita taxation. In 1913, the Italian Government collected 65 lire of the national per capita income of 580, while in 1920, it took 276 lire from the

estimated national per capita income of 2,175 lire.

THE GERMAN DEBT

The German national debt now exceeds three hundred thousand million marks (M. 318,000,000,000, on December 31, 1920). The floating debt is now increasing at the rate of six billion marks a month; on December 31, 1920, it had reached M. 152,727,180,000 (there is an official British estimate in report of the Department of Overseas Trade of as high as M. 197,000,000,-000); and the ordinary daily receipts are now far below the interest on the floating debt alone. The total paper currency issued exceeded M. 77,000,-000,000 (November 25, 1920); of this amount, the note circulation of the Reichsbank is reported on January 12, at M. 65,958,442,000 as against a gold reserve hardly one-sixtieth as large.

The character of the German situation becomes still more appalling when we recall that these figures do not embrace the results of the operations of the German and British clearing houses; nor do they account for compensation to be paid to Germans by their own government under the Versailles Treaty for such deliveries of ships, machinery, horses, war supplies, and the like,—payments which some

courageous German statistician measures as worth M. 131,000,000,000. Finally, the Supreme Council has heaped Ossa on Pelion with aggregate payments of M. 226,000,000,000, and an indefinite 12 per cent exports tax.

Germany's deficit during the present financial year can not fall inside of M. 70,000,000,000. This appears from the following official figures, of which the British Department of Overseas Trade says, "there can be no reasonable ground for not accepting them at present."

In addition, it is estimated that the states and communities, which require M. 15,750,000,000, will be able by local taxation, to raise M. 15,370,000,-000.

Time does not permit any analysis of the expedients recommended to soak up this colossal indebtedness. The capital levy, it is now proposed, will be realized to the extent of 33½ per cent by August 1, 1921. Not long since, the President of the Reichsbank advocated the introduction of a forced loan, which might yield M. 15,000,-000,000.

DEBTS OF OTHER FOREIGN COUNTRIES

The Polish State Loan Bank reports (December 31, 1920) issues of 49,361,-483,439 Polish marks, and seems to be

Expenditures

M. 51,000,000,000	Expenditure, Ordinary and Extraordinary.
41,000,000,000	" Armies of Occupation, Commissions, and Deliveries under Versailles Treaty.
18,000,000,000	Postal and Railroad Deficits.
<hr/>	
110,000,000,000	
(9,000,000,000)	Transferable to the States).
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101,200,000,000	Expenditure of the German Empire.

Revenues (Aggregate Taxation)

M. 36,970,000,000	For the Empire; of this 9,400,000,000 go to the States; leaving
<hr/>	

27,570,000,000 for the National Expenditures.

increasing them at the rate of 4,500,-000,000 marks a month. Of its own gold it held 7,660,590; of gold belonging to the Treasury of Poland, it held M. 4,750,000; of foreign currency, M. 162,150,000; and it has lent to the Polish Government M. 59,625,000,000. Poland's domestic debt had reached M. 40,000,000,000 in September, according to its delegates' reports at the Brussels Financial Conference, while its foreign debt to France, England and the United States is said to exceed \$600,000,000. The Secretary of the Treasury reports (1920, pp. 66-67) that he holds (as custodian) obligations of Poland received from the Secretaries of War and the Navy, for surplus war supplies, amounting to nearly \$60,000,-000.

Czecho Slovakia has a national debt of 40,000,000,000 kronen, some of which is the Bohemian share of the Austro-Hungarian debt. To the United States, Bohemia owes \$61,256,206 for direct advances and \$20,600,000 for surplus war supplies. Her note circulation, as reported at Brussels, exceeded 10,500,000,000 kronen with no gold in reserve.

The Roumanian delegates at Brussels announced a national debt roughly equivalent to \$4,100,000,000 (at par). It appears that on November 15, 1920, Roumania owed the United States \$23,206,820. Her note circulation exceeds ten billion lei.

Our interest at the moment does not require that we should, even in this hasty way, consider the outstanding figures of the other countries of Europe, Asia, Belgium (with her estimated deficit of 4,500,000,000 francs in the budget for 1921), the Kingdom of the Serbs, Croats, and Slovenes, or Greece, to say nothing of Russia. Nor is there time or occasion for separate study of colonial finance. The financial fortunes of Egypt, for instance,

are inextricably bound up with those of England, all the gold of Egypt having been absorbed by London, and its place taken by British war securities; Egypt's cotton crop is sold to Milan, Barcelona and New England through England, and a further flood of paper currency based on British securities, is let loose in Egypt. So it is with India to some extent, and with France and the French colonies and protectorates.

Japan has a less unsound situation in the matter of public credit than any of the other great powers except the United States; although more satisfaction could be derived from this fact if the condition of Japanese private credit (due to unstable commodity markets) were less overcast. On December 27, 1920, Japan's specie holdings were reported (*Japan Gazette* of January 7, 1921) as 2,183,000,000 yen, of which 310,000,000 yen are likely to be required on foreign account, but some 500,000,000 yen are on deposit abroad (chiefly in the United States) to the credit of Japanese private banks. Japanese ordinary revenues for 1920 were expected to meet about 80 per cent of the ordinary expenditures.

INCREDIBLE SIZE OF DEBTS

Certain fundamental things will occur immediately to our minds. The national debts of the world are of incredible size. Any attempt to calculate them involves the use of figures that formerly were used only by statisticians when they speculated on the extent of national wealth. The currencies of the world are being increased in volume in an alarming way. A short time ago the National City Bank of New York estimated that the ratio of gold reserves to outstanding government paper currency had fallen from 66 per cent, where it stood in July, 1914, to 18 per cent in November,

1918, to $13\frac{1}{2}$ per cent in December, 1919, down to 9 per cent in December, 1920. These figures do not take account of Russia since 1917. It was already apparent, even before the Brussels Financial Conference, that three out of four nations of the world had frankly to reconcile themselves to the abandonment of the gold standard and to redouble their efforts to meet constantly increasing government deficits.

It is stated at various places in the report of the Secretary of the Treasury for 1920 and most conveniently on page 106, that the securities acquired by the Treasury under authority of the Liberty Bond Acts aggregate \$9,445,000,000. The securities, of which the Treasury Department is custodian and which are held on account of sales of war supplies, amount to \$563,000,000, while those received from the Relief Administration amount to \$84,000,000. The total foreign securities held by the government on November 15, were reported as \$10,092,054,122.73. This amount represents 91 per cent of all the securities owned by the government, the other 9 per cent comprising capital stock of war emergency corporations, railroad securities and capital stock and bonds of the land banks.

METHODS OF REDUCTION BY LAW

With the methods carefully determined by Congress for the reduction of the indebtedness of the United States, I assume that all are familiar. It is conveniently summarized on page 113 of the Report of the Secretary of the Treasury for 1920. A cumulative sinking fund was established under the Victory Liberty Loan Act and became effective July 1, 1920. This provision permanently appropriates for the current fiscal year and each fiscal year thereafter until the debt is discharged,

"an amount equal to $2\frac{1}{2}$ per cent of the aggregate amount of the bonds and notes outstanding July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on that date, plus the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed or paid out of the sinking fund during such year or in previous years."

Inasmuch as nineteen and one-half billion dollars worth of liberty bonds and victory notes were outstanding on July 1, and the par amount of the obligations of foreign governments purchased under the loan acts and held at that time was, as heretofore stated, nine billion four hundred forty-five million dollars, it appears that the difference, that is the amount intended to be amortized from this sinking fund, is ten billion one hundred thirty-six million dollars. Now $2\frac{1}{2}$ per cent of this is \$253,404,000. It has been calculated that an average interest payment of something like \$432,000,000 a year will be required in addition to the fixed appropriation to extinguish the indebtedness in twenty-five years, thus reaching an average aggregate payment of \$685,000,000 for some twenty-five to twenty-eight years.

Any repayment of the principal of the foreign obligation has to be applied to the retirement of the liberty bonds and victory notes (Section 3, First Liberty Bond Act, Section 3, Second Liberty Bond Act). Repayments were made to an amount of \$114,000,000 up to November 15, 1920, and this amount was applied to the purchase of liberty bonds having a par value of \$119,000,000.

In a letter of the Secretary of the Treasury to the chairman of the Committee on Ways and Means of the

House of Representatives in December, 1919 (Annual Report, 1920, p. 59) it was stated that the interest on the aggregate obligations purchased under the war loan acts amounts to \$475,000,000 a year. It was then proposed by the Treasury to defer the collection of the interest for the present until the debtor nations were in a position to assume the burden.

During the fall of 1920 and until the present time, so far as any announcement has been made, the negotiations looking to the deferment of interest collection have not been completed. The Secretary of the Treasury now (in his Annual Report for 1920, p. 61) proposes a method for the consideration of Congress and possibly as a tentative basis of discussion with the European governments.

It appears that some such plan will be worked out as was proposed in Secretary Glass' letter to Chairman Fordney for the disposition of the interest at the present time, while sooner or later negotiations will have to be engaged in on the larger plan now proposed by Secretary Houston for the funding of principal and interest. Possibly the temporary plan will take the form of permitting the deferment of interest for several years and its payment thereafter in installments together with the interest regularly accruing. But in any event, it is going to be a long time before the governments of Europe are able to meet the aggregate interest payments, to say nothing of amortization charges. Not even the most comfortably fixed can face this gigantic burden anywhere in the near future.

WARTIME CREDIT REQUIREMENTS

For purposes of war the needs of government always outrun its resources. Invariably there has been an almost immediate resort to the

appropriation—today we call it “mobilization,”—of private resources. With due regard for the inviolability of individual interests, but determined to secure and exercise effectively the control of credit, the governments of the world in the last seven years have drawn heavily upon the popular confidence in what sovereignty can do, in their effort to turn to public uses, as variously conceived, all the resources, tangible or intangible, within reach. As we have seen, unlimited quantities of currency have been issued, which has depreciated in many instances to the rating of indeterminate promissory notes, and for this currency and other obligations the governments have in a certain sense sought an endorsement on the part of the public; that is, they have sought an expression of public confidence in the validity of government credit, in securities of relatively long term which represent, among other things, an effort to stabilize the earning power of credit throughout all foreseeable exigencies until a day may come when fiat currency may have been redeemed, or when, in other words, the factors of abundant production, facile means of distribution and tranquil public feeling as to the future, may again clearly be discerned at work.

It has been sufficiently set forth what a burden the indebtedness of sovereign states constitutes at the present time. No time has been available to estimate the extent to which this burden has been increased by local indebtedness, for, after all, local indebtedness is apt substantially to represent investment in the machinery of production and in things that facilitate the elaboration of goods and the effective and economical rendering of services. I do not wish to imply a doubt as to the value of the indebtedness incurred by sovereign states, but, as I have indicated, most of it has to do with war and the prep-

arations for war. In giving some per capita figures I do not wish to have it inferred that one can judge the real weight of the debt of sovereign states by per capita estimates. Those who know conditions in some of the countries of this hemisphere and of Asia, as well as those of Europe, know how inconclusive a measure of economic strength we may find in per capita figures of indebtedness, circulation and the like.

INTERNATIONAL INDEBTEDNESS

The economic significance of the international indebtedness is greater than its proportion to the total national debts. Whatever a sovereign state may do with its domestic debt, it is the accepted theory that it must handle its foreign obligations with the greatest punctuality and with complete fulfillment of all conditions. Inability, punctually and fully, to meet their foreign obligations has made it exceedingly difficult for the governments of western Europe to take any measures which would effectively win back public confidence, neutralize the unfavorable influences affecting the exchanges, and assure encouragement of production and the smooth operation of the processes of distribution.

I do not believe that all the financial trouble experienced in the last few years, of which the course of the exchanges is but one index, is attributable exclusively to the existence of this mass of international indebtedness. Naturally there has been an immense amount of readjustment necessary in the settling-down process after so wild a struggle as the one we have experienced. Artificial forces of every description were brought into play to control and manipulate, to force, to retard, to concentrate, and to divert all the processes of production, and these forces have in turn stimulated the

instinct of the speculator and befogged the landmarks of the person of average prudence and responsibility. A great deal, both material and spiritual, was torn loose from its moorings and sent down-stream to take its chances in the ice jam. And it can not be too frequently emphasized that no one formula could be expected to solve all the problems now crowding on the world.

Nevertheless, I am convinced that the problem which calls for solution first is the one which affects the general attitude towards the state. The popular confidence in the state has everywhere been shaken. This is natural. It is a formal reaction from the imperious absorption of all activities and powers by the state, and the ruthless subordination of every interest to the national policy, as, for the time being, the authorities interpret it.

But it is one thing to resent and challenge *l'étatisme*, the theory of the omnipotent government, and quite another to become so demoralized in the face of the forbidding aftermath of war as to lose all assurance in the maintenance of civil order, and the reasonable stability of fiscal policy long enough to bridge a single harvest. The business communities in Europe today have no knowledge of what is ahead of them; they are fearful of the governments, however much they detest the intolerable interference with their lives the governments have now come to practice. The building up of a reasonably strong volume of private credit is retarded by the universal preoccupation as to the impending disasters in public finance, with further uncontrolled inflation of currency as the only medication. It is the dreadful recourse, each day more frequent and violent, to the use of opiates. Private business is going on surprisingly briskly, and bank balance sheets are roseate;

but the burden of taxation, the cost of the effort to maintain garish standards of living, and above all the sinking purchasing power of currencies, are shadows overhanging everything.

Whether people attempt to think it out or not, they are much worried as to the integrity of the national credit. We instinctively and, as we believe, loyally try to preserve intact the nominal value of any contractual consideration, even though real values may shrink tremendously. We do not wish to see any formal impairment of public securities, and least of all an official admission of bankruptcy. Yet that is undoubtedly what lies ahead of many European governments. Some have drawn nearer to it than others. Beyond bankruptcy we do not care to look. The process of physical rehabilitation is painful enough; the reconstruction of nations and of an entire cultural phase in the world's history is the work of centuries. There are those who say that nations have in other times survived terrible burdens, and that it was never possible to meet all obligations given in war time when they came due, although all such obligations have subsequently been honored, and the hardship survived.

It is true that mankind has a way of living through war, pestilence and enslavement. Is it true, however, that only by such convulsions and agony we can move forward? Is our theory of progress to be one of biological determinism, and are we to build our future on successive mounds and ruins? Surely it is not necessary that everything we have in our entire social order should be further tested by the fire in order to see how much of it is to be preserved! It seems as if there might be a healthy minority, at least, willing to do business on some other theory of life.

POLICY OF THE UNITED STATES

We are now squarely confronted by the problem of the policy of the United States. This money Europe owes us seems an enormous amount; in comparison with the national debts, and even the aggregate international obligations, it is not so large. But its importance is paramount. We can use it to infuse new self-confidence and vigor in the torpid, half-drugged sovereignties, and immediately enable them to inspire all who have to do business with them with renewed confidence in their ultimate recovery and normal functioning. We hold a key. If we demand payment, not all the expedients they can contrive will avail; and the shriveled purchasing power of their currencies will grow more and more feeble. We can relieve them if we will. If we do not, we can not have been the gainers, for our debtors will either have been driven into some action still more costly in character than the remission of the debts, or they will have become officially bankrupt.

I am aware that the people of this country generally expect the foreign indebtedness to be paid off, and that it will be no easy task to face them with the assurance that its payment can not reasonably be expected in the lifetime of the present generation, and that it will be expecting very much to count upon any person now living ever seeing the day when all the deferred interest alone will have been paid up. But they must be faced with the fact, and they may as well be faced with it before 1945, when they will presumably have amortized that portion of our own domestic debts which exceeds the foreign obligations, for they will then have to begin amortizing that portion which it is contemplated to amortize with the proceeds of the foreign debts.

After all, I believe that the people

of this country would be willing to face this additional burden, if they have before them a resolute and well-considered program formulated by the administration and intended to relieve the world as a whole from the spectre of further preparations for war and at the same time alleviate the situation in Europe. If the United States will take the lead and formulate such a program, laying it before the leading nations, our government may count upon having behind it the weight of popular approval, not only in this country but throughout all the little nations in the world, all of whose peoples are sadly depressed by the anxiety which they feel when they witness the demoralization of the great nations which, after all, control the prosperity of the world.

As I contemplate the necessity of resolution and the adoption of some plan rather than reliance upon a policy of drift, I am led to quote a remark by Lord Loreburn in his penetrating study entitled *How the War Came* (p. 175):

A strong prompt decision by each State as to the course it proposed to steer and an immediate announcement of that course, where an antagonist was about in ignorance to thwart it, or as a friend was about to commit some error which would run counter to it—these, surely, are necessary in the management of any kind of controversial business.

TWO ALTERNATIVES

As I see it, there are really two broad alternatives facing the world today; of course, I am speaking of general and philosophical tendencies rather than detailed and particular cases. The nations may continue to cultivate the theory of unlimited state sovereignty and encourage the further development of the means for its maintenance. They may continue to calculate on all

possible combinations, military and financial, with which any of them might at any time be confronted, and prepare to resist such combinations. They may emphasize still more strongly the nationalistic theory of self-sufficiency and economic independence, the control of strategic materials and needs of communication, and proceed to abrogate all economic laws in the superior interest of national sovereignty. They may elaborate an economic and military policy intended to disprove and defy the principles on which the material world seems to be constructed. For the United States in particular, this formula is an inviting one by reason of our immense resources, our geographical position and the relation we now bear to the rest of the civilized world. We can arm to the teeth and be prepared to meet any possible combination which might be formed against us, either by all our debtors or by any group of them; and meanwhile we can salvage such of their movable property as can be without too great difficulty attached and brought under our own physical control. We can then fold our arms and look on while they "stew in their own juice." Indeed, it is not so long since that a man remarked to me that he thought Europe ought to be let pay the penalty for the corruption of its civilization, and that we should offer no help, either by way of remission of debt or by extension of material assistance, but stand aside and permit decay to set in and nature to take its course.

But the trouble with this alternative is that it overlooks the fact that the entire world is more or less of a piece, and that what goes on in Europe or even in one or the other end of Europe, can not but have a repercussion in this country. It does not take account of our dependence upon the existence of general tranquillity in the world and a

state of confidence and assurance that a reasonable degree of public order will be maintained while private business is being transacted. Only the self-sufficient village community can live in such idea-tight bliss. At the very moment that such a policy were determined and the measures begun to give it effect, the signs of weakness would be discernible as a result of the effect on us of the economic breakdown and political chaos in Europe. That breakdown has come in some quarters, and is barely being held off in others. Unfortunately, this first alternative is the one more readily taken up in times like these, when idealistic hopes which took but little account perhaps of realities have been disappointed and reactions of cynicism and disillusionment set in. It is a period of impatience and ill-temper, when loose thinking is common, and resolute, steadfast courses unpopular.

Broadly speaking, the other alternative involves the adoption by the leading nations of a reasonable policy of coöperation, looking to gradual disarmament, and agreement on the fundamental principles.

Any plan laid before the other governments must involve economic elements, matters in the domain of international law and certain political and moral considerations, all of which are vital factors in the peace of the world. It must embrace a genuine cessation of military and naval preparation, not necessarily the scrapping of fleets, aircraft, or fortifications, but the declaration of what is commonly known as a "holiday" in construction of these means of offense and defense, and the immediate acquisition of all enterprises for the construction of armament and military munitions by the several states. The reasonably rapid reduction of military and naval personnel, no matter how the state has to

provide for the men released, is another indispensable element in any plan of restriction of the preparations for war. In the domain of international law there should be agreement in principle (to be carried out later in detailed conventions) as to the outlawry of the use of chemical warfare; the abandonment of reprisals in any and all circumstances; the acceptance of the inviolability of merchant craft; possibly, also, the automatic action of neutral governments to bring about an effective blockade of belligerency wherever it appears without dispute as to who is the aggressor. After all, the thing which needs to be quarantined is the state of belligerency.

OTHER SETTLEMENTS

There are certain other settlements which must be regarded as essential to the peace of the world, not only now, but for the future. For instance, a determined and patient effort on the part of our government would go far towards settling by international convention the question of protection of racial minorities wherever they exist, so far as this problem can be solved otherwise than by the exercise of real understanding and human charity.

I also feel that the extension of the good offices of the United States Government at the time that it were to initiate the other negotiations necessary to the successful carrying out of this plan of cancellation of war indebtedness on the basis of *quid pro quo*, would make it easy for the Government of England gracefully to recognize the right of those who reject her offer of partnership in empire, peacefully and unmolested to withdraw. England would thus secure a friendly neighbor who would be willing undoubtedly to shoulder a just proportion of the British war debt if permitted to go in peace, and who would also be as willing to

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renounce the ambitions and burdens of empire as all the other little nations have been willing to abandon them in order to win the precious spiritual treasure of self-direction. An independent Ireland would be as little concerned with the imperial projects of larger nations as either of the Low Countries after their emergence from centuries of attempted assimilation by their neighbors.

CONCLUSIONS

Possibly no recapitulation is of any use after such a survey of the question as I have had to make, but I venture to point out the chief considerations that I have set down.

1. The European countries are unable at the present time to pay interest on their debts, or undertake the amortization of their debts; and it will be years before they can begin to pay the interest currently due, to say nothing of arrears of interest.

2. It would be hardly possible, or at any rate, exceedingly difficult, for those countries to make head against their other obligations if their indebtedness to the United States were cancelled; while these obligations to the United States stand, the European governments are forced to continue absorbing private credit, already dangerously near exhaustion, for public use.

3. Relief from the burden of these debts, whether payable on demand or after twenty years, would enable the European countries (1) to come nearer to balancing their ordinary budgets, (2) to stabilize their fiscal programs long enough to enable capital to be invested with some assurance, business to be set going, and industry to revive, and (3) to begin the long and tedious return journey to convertibility of their currencies.

4. Cancellation by the United States of the debts owed by European coun-

tries on account of war credits or European relief would naturally be welcomed by the European peoples and governments; they would, of course, prefer that such cancellation be unconditional.

5. Finding that at present unconditional cancellation can hardly be secured, the European countries will decide that they must make the best of the situation, bring about as rapidly as possible the transformation of their demand notes held by the United States Government into 15-25 year bonds with funding of interest, and having been granted this respite, address themselves to (1), domestic adjustment and (2), the cultivation in the United States of a public sentiment friendly to unconditional cancellation.

6. So bad is the situation of the European countries, however, that they could not, and would not, refuse any reasonable conditions imposed by the United States upon the gradual cancellation of the debts; the instant relief to their fiscal maladies would be worth any bearable sacrifice.

7. All the more would the European countries be willing to accept conditional cancellation, if the conditions laid down by the government of the United States were clearly for their further relief from the burdens of war; while the national dignity in each case would be consoled with the argument that the process was world-wide.

8. This war has frightfully mortgaged the future. Are not signs everywhere discernible that people are going not merely to chafe under the burden, but to question the utility of our political, economic and social system, or even of our sacrosanct ideas of sovereignty itself? If this is to be the outcome, there is not going to be much of our foreign debt paid to us, unless we put a lien on everything our debtors possess, movable and immovable, and

have plenty of physical force in reserve to make the lien good.

9. Somehow, no doubt, the race will survive if any or all the governments of Europe collapse. The United States may become, either by design or as residuary legatee, the foremost imperial state in the world, vigorously pushing forward a program of economic penetration through this hemisphere, and financial leadership in the world. Nevertheless, many new ideas may be set loose under the pressure of economic forces, and we may yet be brought to a period of exhaustion and stagnation as profound as that which overtook the classical world of Asia and our own western classical antiquity. Is it possible that we are incapable even of imagining, if not of effectuating, an alternative to this sacrifice?

If, therefore, it would seem that the

United States will never receive any appreciable portion of the debts arising from the war, that the existence of these debts is an aggravation of economic distress and a temptation to desperate measures, and that their cancellation on any reasonable terms could be made of great service to the whole world, then it would follow that the dictates of prudence and self-preservation, no less than the principles of sound business policy, counsel us to determine the program of general and specific action we desire the European countries to take, and lay it before each of them directly and formally, its acceptance to constitute the indispensable condition to the commitment of this country to a program of gradual cancellation of all the European debts except those arising from the sale of surplus war materials.

Book Department

DEALEY, JAMES QUAYLE. *The State and Government.* Pp. xiv, 409. Price, \$3.00. New York: D. Appleton and Company. 1921.

This is a book of principles and not a description of the governmental machinery of the state. The contents cover such matters as the social background, development of political government, taxation, police power, functions of government, classification of law, the electorate, citizenship, political parties, and the growth of democracy. It is not in any sense a contribution. It is solely what it purports to be—an elementary introduction to political science.

MCLAUGHLIN, ANDREW CUNNINGHAM. *Steps in the Development of American Democracy.* Pp. 210. Price, \$1.50. New York: The Abingdon Press. 1921.

This book puts into 210 pages of clear type a series of lectures given at Wesleyan University in the spring of 1919. There are eight chapters in the book the first seven of which deal with principles emerging from our colonial history, the theories of the Revolutionary period, the principles and ideas of the critical years following the Revolutionary period, in the Jeffersonian, Jacksonian, Civil War and post-war periods. The crux of the book is Chapter VIII on "The Implications and Responsibilities of Democracy Today." The analysis of democracy given in the last thirty pages is alone worth the price of the book many times over. It is not only a philosophical analysis of merit but it is a clear vision of the science of democracy and a call to action on the high plane of the true democratic calling. A finer statement has not been written in many, many years.

HALL, G. STANLEY. *Morale. The Supreme Standard of Life and Conduct.* Pp. ix, 378. Price, \$3.00. New York: D. Appleton & Co. 1920.

Morale is "to keep ourselves, body and soul, and our environment, physical, social,

industrial, etc., always at the very tip-top of condition." The developmental urge that leads us into this super-hygiene is the only "truly defined power that ever was or will be." Hence it follows that "morale thus conceived is the one and only true religion of the present and the future and its doctrines are the only true theology." "True morale is never motivated by the expectation of pay or pain in another world."

Such is the main thesis in this new book by G. Stanley Hall. But few will agree with this fundamental thesis. All however will profit from the illuminating discussion of such topics as the Morale of Fear, Death, Hate and Anger, War Aims and Knowledge, the Soldier Ideal and its Conservation in Peace, Morale and Rehabilitation of the Wounded, Morale and Education, and Morale and Religion.

BRISSENDEN, PAUL FREDERICK. *The I. W. W. A Study of American Syndicalism.* Pp. 438. Price: Cloth cover \$4.00, paper cover, \$3.50. New York: Longmans, Green and Co., Agent. Columbia University. 1921.

This is an inclusive history of the I. W. W. from its early revolutionary bodies to 1919. It is difficult for one to discuss with accuracy the work because the field is necessarily so broad. Footnote references are given to sources and extensive quotations are included, and all in all the book appears to be a thorough-going, authentic and worth while history of the I. W. W.'s in this country. Those who want not only the history but the philosophy of the I. W. W. will find this book worth while.

The Appendix gives some of the songs from the I. W. W. song book and some of the statutes by states outlawing criminal syndicalism.

DEALEY, JAMES QUAYLE. *The State and Government.* Pp. xiv, 409. Price, \$3.00. New York: D. Appleton and Company. 1921.

This is a book of principles and not a description of the governmental machinery

of the state. The contents cover such matters as the social background, development of political government, taxation, police power, functions of government, classification of law, the electorate, citizenship, political parties, and the growth of democracy. It is not in any sense a contribution. It is solely what it purports to be—an elementary introduction to political science.

MERRIAM, CHARLES EDWARD, PH.D.
American Political Ideas, 1865-1917.
Pp. 480. Price, \$2.75. New York: The MacMillan Co. 1920.

The author well calls this *American Political Ideas* with the subtitle *Studies in the Development of American Political Thought, 1865-1917*. This is not a book on political theory. It is an inclusive study of the various ideas that have been present in American life from 1865-1917. The most masterly chapter of the book is that on "The Background of American Political Thought." This chapter will prove particularly helpful to anyone who cares to get the background for present-day political phenomena. The book should be in every well-stocked library.

Those who are looking for a critical analysis will be disappointed in the book. Those who are desirous of getting a clear-cut and well-balanced statement on such topics as the consent of the governed, the courts, the legislative and the executive, internationalism, militarism, the political party and civil liberties will find the book informing and useful.

KIERNAN, T. J., M.A. *British War Finance and the Consequences.* Pp. vi, 132. London: P. S. King and Son Limited.

This book discusses briefly and concisely the principles underlying public finance in Great Britain before, during, and since the World War. It does not contain detailed information as to the administration of taxes now in force in the United Kingdom. It does discuss concisely, however, the principles underlying these taxes and applies the general canons of economics thereto. This is a handy reference book as it contains the salient principles of the British fiscal system.

DOWD, JEROME, M.A. *Democracy in America.* Pp. XIII, 506. Price, \$3.50. Oklahoma City: The Harlow Publishing Company. 1921.

"One of the characteristics of the Americans, conspicuous in all Teutonic races, and especially accentuated in the English, is a very strong degree of pugnacity." This is the type of statement that pervades the book. Are the Teutonic races conspicuous for pugnacity and is this trait especially accentuated in the English? What sort of evidence would one have to have before such a statement could be made? Are we to rely merely on statements of travellers?

Those who desire such statements as the above quotation in great abundance will find numerous examples throughout this book. There are chapters devoted to domestic life, industrial life, political life, religious life, the press, the drama, manners, science, education, philosophy, music, painting, sculpture and architecture.

LASKI, HAROLD J. *Political Thought from Locke to Bentham.* Pp. 326. Price, \$1.90. New York: Henry Holt & Co. 1921.

This book is more than the usual collection of excerpts from political thinkers. It is an interpretation of the classical contributions of political thinkers from Locke to Bentham in the light of present day developments. It is not a bromodic collection of excerpts from those authors, nor is it an exercise in putting up the authors of the past and knocking them down with present-day knowledge. It is an illuminating analysis of the works of those theorists, by one who has an inclusive grasp of economic and social forces that create political theories, written in an enticing style.

BRUCK, W. F. *Geschichte des Kriegsausschusses der Deutschen Baumwoll-Industrie.* Pp. 328. Berlin: War Committee for the German Cotton Industries, 1920.

The work under consideration presents a discussion of the organization and activity of the German Committee which dealt with the cotton industry in the German Empire during the war. The author, a

professor of Economics at the University of Giessen, was director of the cotton section in the Raw Materials Division of the War Ministry up to December 1915, before which time the important regulations pertaining to government control of the cotton industry had been formulated. He has also had access to the complete records of this committee during the latter part of the war.

The volume is divided into three parts. The first, occupying two-thirds of the book, gives a brief history of the cotton industries in Germany before the war, and more particularly an account of the early effects of the war on these industries—the changes due to lack of raw material, the effects of substitution, price regulation, and the technical changes within the industry. The last one hundred pages of part one contain a detailed account of the plans and procedure by which owners of spinning and weaving mills were indemnified. Of approximately twelve million spindles in the cotton industry of Germany, the war committee designated only two million for army purposes. The owners of these two million spindles were not allowed to pocket large gains; in fact, the entire profits on the war orders were distributed among the owners of the idle spindles as indemnification for their enforced idleness. Part two presents in considerable detail the various regulations adopted for control of the cotton industries during the first two years of the war, and extensive tables of statistics and graphs showing stocks, prices, number of workmen employed, etc. from 1915 to 1918. Part three deals with the business organization of the committee and the various problems before it for solution.

Before the war, the cotton industries of Germany were among the most important of the country, engaging about one-eighth of the total German labor and utilizing nearly two million bales of cotton per year. In 1913 Germany exported about 125 million dollars worth of yarn, thread and cotton goods, being surpassed in this field only by Great Britain and the United States.

While entirely dependent on imports for supplies of cotton, Germany gave little attention to this raw material during the summer of 1914. As a matter of fact the importation of raw cotton into the country was not seriously affected during the early months of the war. Large shipments were received up to February 1915, at which time cotton began to be restricted to army uses only. These shipments came largely as reexports of American cotton from Scandinavia, Holland, Switzerland and Italy. On August 22, 1915, England declared all cotton shipments contraband, and from this time on German industries were more or less seriously handicapped for raw cotton.

At the outbreak of the war the cotton market at Bremen had about 325,000 bales on hand, and some 400,000 additional bales were in the possession of the plants using this material. The stock on hand in industrial plants was inventoried in May 1915, and found to be about the same as in July 1914. When Italy declared war on Austria-Hungary there were approximately 500,000 bales of cotton at Genoa, destined for Germany.

The chief task of the committee, whose activities Dr. Bruck describes, was, of course, to provide for the needs of the army. This was accomplished chiefly by restricting the supplies of raw cotton to those plants designated by the committee to supply army material. This committee also apportioned the work among the various establishments, distributed the subsidy payments to idle mills, and had general supervision and disposition of the large stocks of cotton confiscated in northern France, Belgium and Poland.

The book is a mine of detailed information regarding official decrees for the control of the cotton industries in Germany from 1914 to 1918, and is chiefly valuable as a source book.

HARRY T. COLLINGS.

University of Pennsylvania.

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